KDI School of Public Policy and Management

EFFICIENCY EFFECT OF PRIVATIZATION IN THE DEVELOPING COUNTRIES: EVIDENCE FROM VIETNAM

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Abstract

Privatization of state-owned enterprises (SOEs) has arguably become one of the most radical policies of economic reforms in developing countries. Many scholars believe that privatization has positive impacts on enterprise performance. These impacts could result from improving corporate governance, production and business operation, and labor condition. However, implementation of privatization programs might not induce these expected outcomes in the developing world because of less domestic savings, underdeveloped capital markets, ineffective and poor regulations, and less market competitiveness.

Vietnamese government has implemented an economic reform program known as *"Doi moi"* (Renovation) with the aim of creating a "socialist-oriented market economy" since 1986. At the heart of the reform, the government has put effort to privatize SOEs in order to reduce the size of state-owned sectors in the economy, and consequently, to improve the economy performance. However, SOEs have played a significant role in the economy after more than two decades of privatization implementation. According to the data of Vietnam General Statistics Office, SOEs employed 59 percent and 47 percent of total social capital and contributed 38 percent and 36 percent of GDP in 2001 and in 2005, respectively. These figures have decreased to 38 percent of total social capital and 28 percent of GDP by 2015. Some obstacles that may limit the privatization progress in the long term. Therefore, I try to investigate impacts of privatization on SOEs performance and evaluate current privatization strategies and policies with the aim of suggesting some valuable policy implications for accelerating privatization process in Vietnam.

This dissertation review many studies on privatization of SOEs in theory and practice. I first review privatization in theory and experiences of developed and developing

countries and evaluate efficiency effects of privatization on SOEs performance. Then, I investigate whether Vietnamese SOEs have benefited from the privatization programs and how privatization should be conducted in Vietnam to yield superior enterprise performance. In fact, there have been few empirical studies on impact of privatization on SOEs performance in Vietnam. However, most of these studies are based on their own surveys and applied methodologies that have some limitations. By using a difference-in-differences (DID) framework to firm-level panel data over the 2004-2008 period, I confirm that Vietnamese SOEs have significantly improved its performance in terms of profitability and productivity after privatization. This finding raises an important question of what are the main factors behind the improvement of privatized SOEs. In the next step, I thus examine the link between ownership structure, corporate governance, and firm performance in the post-privatization period by applying the method of two stage least squares (2SLS) to Vietnamese listed firms during the period of 2003-2015 and analyzing four listed firms which have different forms of ownership structure after privatization. The results suggest that formulating concentrated ownership structure after privatization is an important feature in inducing major restructuring process, and consequently, in improving enterprise performance. Based on the findings and arguments, I suggest some guidelines on privatization plans, privatization implementation strategies, and a new privatization driver to facilitate efficient privatization process in Vietnam.

The dissertation progresses as follows.

Chapter 1: An Overview of Efficiency Effect of Privatization in Developing Countries

Chapter 1 is designed to provide fundamental background for the dissertation. This chapter first briefly introduces privatization in theory and practice, including concepts, principles, methods, advantages, and disadvantages of privatization. In addition, empirical studies on efficiency effect of privatization and lessons from some countries' privatization experiences such as that of the United Kingdom, South Korea, Latin America, and transition countries are also reviewed. The chapter then presents an overview of Vietnam's privatization strategies and policies in order to document some major achievements and

limitations of the privatization process. These findings are carefully referenced in drawing policy implications aimed at facilitating efficient privatization process in Vietnam.

Chapter 2: Impact of Privatization on the Performance of State-owned Enterprises in Vietnam

The main purpose of this chapter is to estimate the impact of privatization on the performance of Vietnamese SOEs. In this regard, I apply a difference-in-differences (DID) framework to firm-level panel data in the period of 2004-2012 to evaluate the impact of privatization. In addition, in order to examine how the SOEs with different degrees of privatization have been differentially affected, I adopt a continuous treatment intensity based on the state-owned shares of SOEs sold to private investors. The results indicate that privatization in Vietnam has had a significantly positive impact on SOEs performance in terms of profitability and productivity. In particular, enterprises that have experienced a greater degree of privatization and had more state-owned shares sold to private investors could improve their performance more than those which experienced a lesser degree.

Chapter 3: Privatization, Ownership Structure, and Privatized State-owned Enterprise Performance in Vietnam

Chapter 3 focuses on analyzing the link between ownership structure, corporate governance, and firm performance in the post-privatization period. Applying the method of two stage least squares (2SLS) to control for the endogeneity of ownership, I attempt to evaluate the impact of different degrees of ownership concentration on the post-privatization performance of Vietnamese listed firms which were completely privatized between 2003 and 2013. The estimated results show that fully-privatized SOEs with greater degree of ownership concentration have performed better in terms of profitability and efficiency than those with dispersed ownership structure in the post-privatization period of 2003-2015. I then examine four Vietnamese listed firms which have different forms of ownership structure after privatization to verify how their corporate governance and business operation have improved after changing its ownership structure. I find that privatization which leads to concentrated ownership structure has generated effective corporate governance, and consequently superior firm performance.

Chapter 4: Suggestions for Privatization Strategy in Vietnam

This chapter aims to suggest some guidelines on privatization plan, privatization implementation strategy, and a new privatization driver in Vietnam. These guidelines are based on my empirical findings on different countries' privatization experiences including Vietnam. The first section presents some recommendation on what Vietnamese government should consider regarding their formulation of rational privatization plans, such as enforcing complete privatization programs, using methods of privatization which can lead to concentrated ownership structure, and attract potential private investors. Furthermore, the government should pursue an appropriate implementation strategy in order to effectively conduct privatization plans. For instance, a swift and comprehensive (Big-Bang) strategy of privatization should be applied for SOEs and partially-privatized SOEs which are operating in non-strategic sectors and have more or less than 50 percent of state-owned shares; evolutionary strategy is suggested for downsizing state ownership of state economic groups (SEGs) and state general corporations (SGCs) operating in non-natural monopoly sectors; and triggering strategy in line with creating more diversified private owners is recommended for privatization of SOEs operating in natural monopoly sectors. Creating a new privatization driver as presented in the last section is the most important factors in order to implement privatization plans in more efficient ways.

Chapter 1

An Overview of Efficiency Effect of Privatization in Developing Countries

Introduction

Privatization has been proposed as a solution to the inefficiency in public sectors during the last two decades of the twentieth century. Privatization programs have been introduced with the aim of relieving fiscal burden, reducing cost inefficiency in public enterprises, generating market liberalization, and depolicization. According to OECD (2001), total global privatization receipts were estimated about USD 936.6 billion in the 1990s. Governments around the world realize that privatization is an effective policy to maximize economic efficiency as it reduces subsidies for loss-making public enterprises and raises revenue from selling state assets. However, implementing privatization programs in some countries like the United Kingdom and South Korea has been much more successful than in others such as Latin America and transition economies. In this contest, the chapter seeks to explain the main reasons behind successful cases as well as failure stories; and why privatization works in some countries by studying country experiences from the past.

The chapter includes five main parts. The first part provides underlying information of privatization in theory and practice, including principles, methods, advantages, and

disadvantages of privatization. Next, a brief introduction of world's privatization history is presented. The literature review of privatization impact is the third part. The fourth part is discussion on privatization experiences from the past. An overview of state-owned enterprises privatization process in Vietnam is also another main part of this chapter. The last part is conclusion and discussion.

1.1 Privatization in theory and practice

1.1.1 Concepts of privatization

The concepts of privatization are relatively different in terms of practical and theoretical point of views. Theoreticians, like Boycko, Shleifer and Wishny (1996, p.310), define privatization as 'a combination of the reallocation of control rights over employment from politicians to managers and the increase in cash flow ownership of managers and private investors'. Others, like Domberger and Piggott (1986, p.146) (Domberger and Piggott 1986), argue that privatization could be seen as 'policies designed to improve the operating efficiency of public sector enterprises through increased exposure to competitive market forces'.

Narrowly, the term privatization is defined as 'the transfer from the public to the private sector of the ownership and/or control of productive assets, their allocation and pricing, and the entitlement to the residual profit flows generated by them' (Adam et al., 1992, p.6). Similarly, De Walle (1989, p.601)(Van de Walle 1989) identifies privatization as 'transfer of ownership and control from the public to the private sector, with particular reference to asset sales'. Other scholars, like Bos (1991)(Bos et al. 1991) Hemming and Mansoor (1988)(Hemming and Mansoor 1988), and Rees (1988)(Rees 1988), interpret the concept of privatization to be quite similar to that of the above scholars.

Researchers in the field, such as Galal (1991)(Galal 1991), Shirley (1990)(Shirley 1990), Shirley and Nellis (1991)(Shirley and Nellis 1991), believe that the term privatization is a synonym of the concept of public enterprise reform. It means the reform goals equate with functional privatization. Prager (1992)(Prager 1992) also defines privatization in different

concepts such as a change in ownership and control or only in patterns of control rather than ownership, private ownership without any constraints to entry into the industry, and the partial sale of state assets which does not imply attenuation of state control. Shair (1997)(Shair 1997) clarifies two different concepts of privatization. "The first is privatization as the transfer of ownership and/or control (whole or partial) from the state to the private sector. This definition does not include SOEs reform programs and deregulation/liberalization polices because these necessitate neither a change in control and ownership nor a change in the source of supply for goods and services". The second is that "privatization equates with functional decentralization, as opposed to territorial decentralization". He uses the second definition to analysis the impact of privatization on economic development.

In fact, there is no single definition of privatization. Many scholars have been revising the concepts of privatization, which could serve the objectives of their studies. The definition of Shair (1997) is quite relevant to my research objectives and Vietnamese SOEs privatization process. In this regard, the term privatization refers to a process of transferring partial and/or full state ownership of SOEs to private sectors.

1.1.2 Principles of privatization

There are, in practical sense, three potential benefits that makes privatization favored by governments. The first benefit is improving economic performance by focusing on cost efficiency *at firm level*. In other words, privatization is undertaken partly as a good solution in order to relieve the fiscal burden rising from public enterprises because of too much slack (moral hazard) and over investment. The study of Pirie (1988)(Pirie 1988) states that public enterprises have operated inefficiently and privatization is in need of improving its performance. As in Germany, Denmark, France, and Finland, privatization has become widespread in order to raise revenue for the state to finance a fiscal deficit. The view that 'the state should not be in business' points out in the following quotation:

Just as nationalization was at the heart of collectivist programme by which labour sought to remodel British society, so privatization is at the centre of any programme of

reclaiming territory for freedom. [. . .] But, of course, the narrower economic arguments for privatization were also overwhelming. The state should not be in business. State ownership effectively removes – or at least radically reduces – the threat of bankruptcy which is a discipline on privately owned firms. (Thatcher, 1993, pp. 676-7)(Thatcher 1993)

Regarding effective management, private sectors have stronger incentives to minimize cost than public sectors. Cost inefficiency in public enterprises is subsidized by governments, which catch attentions of both scholars and policy makers. Since public enterprises have better chances to access credit, they may easily distort market competition and free trade. Public enterprises tend to invest less on cost-saving research and development (R&D), which causes a dynamic inefficiency (Bos & Peters, 1991)(Bos et al. 1991). As a result, this not only influences economic performance but also raises fiscal burden. It is not necessary to criticize subsidies and distortions which are the results of political failures because they even can occur after privatization implementation. Public enterprises would be more efficient under privatization process in compliance with better working conditions and excessive quality (Ferguson, 1988)(Ferguson 1988).

Secondly, *at market level*, privatization was introduced as a solution to promote market liberalization. The well-known Pareto-efficient outcomes lead to perfectly competitive markets which can never be achieved in reality. Public enterprises often monopolize domestic market, which causes imperfect information. As a result, exiting firms could not improve their business performance; and new entry of efficient firms may be blocked because of lacking relevant information. One of the necessary conditions for market liberalization is increasing size of private ownership in the economy, especially in some 'natural monopoly' industries such as gas, electricity, water, telecommunication, and railway. For instance, the privatization program in the UK was successful in rails, wires, and pipers. Therefore, market liberalization is a key for firms to have free entry and for consumers to benefit from competitive process.*'Market liberalization and privatization are best seen as complementary policies'* (Robinson, 2003, pp. 50-11)(Robinson 2003).

At state level, depoliticization is the third benefit arising from privatization process.

Political factors that are imbedded in almost all important decisions may negatively affect public enterprises' performance. In particular, lobbying appears as a consequence of political ideology. Lobbying tends to be relatively high return activity in public enterprises. As an alternative view, enterprises in some industries are still necessarily owned by governments in developing countries, even in developed countries.

Privatization often requires three fundamental conditions, including institutional environment, degree of competition, and the role and nature of current state intervention in the economy, for successful privatization process. Creating good institutions has to be considered for the management and supervision of the process. According to Guislain (1992, p. 47)(Guislain 1992), perfect institutional arrangements cannot be achieved in practice and it is necessary to clarify responsibilities of each concerned parties and conflicts of interest.

In short, privatization cannot address all problems but it can open a greater market competition for better firm performance. Privatization can increase the role of private sectors in enhancing market competition and improving capital markets. In other words, maximizing economic efficiency by transferring ownership from public to private sectors is an important objective of privatization. Therefore, the relationship between economic growth and size of private sectors can be expected to be positive rather than negative in most countries.

1.1.3 Methods of privatization

Methods of privatization could be defined from different approaches. In abroad sense, Feigenbaum and Henig (1994)(Feigenbaum and Henig 1994) distinguish among pragmatic benefits, tactical gains, and systemic changes on the dynamics of privatization. Denationalization method is defined as the transfer of at least 51 percent of state-owned shares of SOEs to private sectors. In addition it is more appropriate to define denationalization as a complete process in which all assets and shares of public sectors must be transferred to private sectors. As a result, its management and operation are expected to be more efficient after privatization. However, denationalization process suffers from some

problems, such as timing and planning, instability and uncertainty of political economy, and underdeveloped capital markets. In a narrow sense, Andrew Berg and Elliot Berg (1997)(Berg and Berg 1997), for instance, categorized methods of privatization into direct and indirect approaches. Direct approach includes four categories which are sales of assets or shares, capitalization, management-employee buy-outs (MEBO), and mass (voucher) privatization. Management contracts, lease contracts, and services contracts are indirect privatization methods. According to Mako and Zhang (2003)(Mako and Zhang 2003), they categorize sales methods of privatization based on sales process (open or closed) and target buyers (trade sales, initial public offering, MEBO, and mixed sales), which is relevant to privatization in Vietnam. In the context, this part mainly discusses some key features of privatization methods which are categorized based on target buyers (See Table1.1).

(i). Trade sales

Trade sales method refers to a process in which an SOE is sold directly to outsiders for a positive price. This method has heavily been applied in Hungary and Mexico. The method offers a great potential for raising fiscal budget resulting from higher sale proceeds, compared with other methods. In addition, SOEs which are privatized by trade sales can obtain technology and knowledge transfers from foreign investment and develop strong management. The method does not have higher demands on legal framework or market infrastructure. This is the reason why the method does not support to develop capital markets after privatization implementation. Another disadvantage of trade sales is time-consuming, which has experienced in non-transition and transition countries. For example, it took over 10 years for the Thatcher government in the UK to sell about 20 companies and 6 years for Mexican government to privatize about 150 SOEs.

However, a major issue of the method is how to evaluate enterprises' assets and liabilities in order to define a precise sale price. It is more challenging in socialist economies where market mechanisms are limited and monitoring systems are ineffective. Dealing with any debt of public enterprises before these enterprises are privatized is another challenge. Governments should consider what are appropriate solutions, financial aids or

Table 1.1: Key Features of Main SOE Sales Alternatives

Alternative	**Advantages**	**Disadvantages**	**Main Applicability**
Trade sale	- Higher sales proceeds control premium - Strong management - Possible foreign investment/technology - Fewer demands on legal and market infrastructure	- Time consuming - No support for capital market development	- Great majority of medium and large SOEs
IPO	- Develops capital markets - Possible market supervision of enterprise - Highly transparent	Lower sales proceeds - Extensive preparations - High costs - Time consuming - High demands on legal and market infrastructure	Large, well-known, well-run SOEs - Strong legal/regulatory protections for minority shareholders in place
MBO/ MEBO	- Speed - Support from managers and workers	- Non-transparent - Possible favoritism or corruption - Public criticism - Unlikely to help competitiveness	- Small SOEs dependent on scientific and technical skills of staff
Mixed sales	- Somewhat higher sale proceedss - Strong management - Opportunity for public to share in gains - Public support - Develop capital markets	- More complex transaction - High costs - Time consuming - High demands on legal/market infrastructure	- Medium/large SOEs likely to attract strategic (e.g., foreign investors)

Source: Mako and Zhang (2003)

subsidies, they wish to use in order to encourage the sale of privatization. The two main solutions have been adopted in empirical cases. The first solution is *'golden shares'* which was applied by the UK government to protect electricity industry from 1990 to 1995. This protection put a restraint on foreign investors to purchase capital shares. The second is named *'hard cores'*, which had been used in France. The 'hard cores' method requires no nationality discrimination and free capital markets in which foreign investments easily involve in privatization programs. 'This technique has been criticized as rewarding government supporter and creating a highly incestuous group of investors' (Graham & Prosser, 1991, pp. 154-60)(Prosser, Graham, and Galton 1991). However, regulations after 'hard cores' privatization need to be addressed, particularly in law of competition and consumer protection.

(ii). Initial public offering

Initial public offering (IPO) is a method of privatization in which process of setting sales price is open to the public. IPO has been developed as a major method of privatization in Canada, Russia, Czech Republic, and some transition countries of Central and Eastern Europe since 1990s. Developing capital markets is a major advantage of IPO. The method is quickly applied, compared with others. A huge number of state enterprises can be privatized through financial intermediaries and free distribution. As a result, secondary capital markets are developed to ensure that distribution of state-owned shares is more equitable and transparent. In other words, the method is often more transparent than others and creates higher possible market of supervision on enterprises.

However, there are two main disadvantages of IPO. The first difficulty is that it depends on degree of market forces and liberalization. The status of domestic saving and capital market freedom in the economy is another major requirement for successful privatization implementation. Increasing investment funds by selling state assets to citizens is an important channel for quick privatization. In addition, how to define relative sales price is another difficulty of the method. In this case, governments should use alternative methods to obtain higher returns. According to the World Bank (1988), there are four necessary conditions before feasibility of public offering including sizable enterprise,

availability of financial management information, discernible liquidity, and development of equity markets. In fact, these conditions in some cases cannot be achieved at the same time. For example, African countries have small capital markets and are relatively weak in mobilization of investment (Campbell White & Bhatia, 1998, p. 10)(Bhatia and Campbell-White 1998). Nellis (2002)(Nellis 2002) also argues that the World Bank should pay attention to improve institutional development, especially prudential regulations in both financial and capital markets.

(iii). Management/employee buy-out

Management/employee buy-out (MBO/MEBO) offers state-owned shares of public enterprises for its insiders at positive prices. The method is often used for large-sized SOEs having more than 250 employees. Many transition economies such as Romania, Croatia, Slovenia, Uzbekistan, Ukraine, Macedonia, and Albania used MBO/MEBO technique as the primary method of privatization. The method could speed up privatization process, resulting from having supports of managers/workers. It is appropriate to apply the method in transition economies where there is lack of property rights and weak insider control system. Sales price in these economies have basically offered to insiders of public enterprises for whatever they were able to pay (OECD, 2009). Despite the fact that precise sale price is directly set through negotiation between employees and the special operation forces (SOF), benefits are unequally distributed between managements and employees. Another issue of the method in organizing private sales is non-transparency and non-objectiveness of sales process. Market consistent prices based on independent evaluation of experts in privatization with more competition are necessary defined. In addition, MBO/MEBO methods also face potential risks after privatization such as inefficiency management, larger costs due to maintain excessive employment, and insufficient investments.

(iv). Mixed sale

Mixed sales method combines these above methods, which can obtain their advantages as mentioned earlier. Many countries, especially Central Europe, adopted mixed sales as the standard method for successful SOEs privatization. However, the method also raises

a situation in which sales transactions are more complex and costly, compared with other sales methods.

In summary, each method of privatization has its own advantages and disadvantages which should be considered before privatization implementation. The method is selected based on the nature of enterprises, capital markets, and main objectives set for privatization. Maximizing net value of proceeds (after subtracting cost of privatization) which is considered by most governments is one of the top objectives set for privatization. For instance, while the Commonwealth of Australia considers "how the privatization method may impact on the ongoing viability of the entity and/or industry", the Korean government is more likely to consider the "long-term development strategy of the privatized company" (OECD, 2009).

1.1.4 Pros and cons of privatization

As in theoretical and practical senses, privatization is an efficient technique to promote economic growth, market liberalization, and depolitization. On the other hand, this also raises a number of concerned issues such as natural monopoly, public interest losses, potential dividends, increasing inequality, reducing economies of scale, and employment losses.

Advantages of privatization

(1) Downsizing

During the 1970s, most of large state enterprises ran a dozen of business since governments would like to gain greater revenues through business diversification. However, those businesses which are not in core-businesses of enterprises were performed generally poor and inefficient performance. Governments had to face serious problematic issues arising from "conglomerate" corporation. Moreover, privatization will enforce to restructure these corporations, which should focus on its core functions and give non-core business to others who carry out it better.

(2) Fiscal relief

Governments around the world often face with large fiscal deficit. Therefore, privatiz-

ing SOEs can be a way to gain revenues to offset fiscal burden. Governments can add more revenues from taxes if privatized SOEs operate more efficiently and create more profits. Furthermore, in the case of privatizing loss-making SOEs, fiscal deficit will reduce as a result of elimination of subsidies.

(3) Improved efficiency

In empirical approaches, private enterprises have more incentives to reduce costs and improve its efficiency while state enterprises tend to have poor performance and to be inefficiency. Private enterprises are more interested in making its higher profits than public ones. As a result, product markets will be more competitive and prices will be more adequate with consumer choices. Thus, privatization process is considered as a method to achieve higher economic efficiency.

(4) Depoliticization

By transferring ownership from public to private sectors, government bureaucrats will be depoliticized, and privatized SOEs will run its business more efficiently. Basically, private firms have strong motivates to promote or recruit employees based on their performance. Private firms are not affected by any particular political relations while making decisions in SOEs is commonly influenced by political ideologies.

(5) Wider ownership

Privatization is an effective way to widespread ownership to the public. Through different methods of privatization as mentioned earlier, every citizen in both developing and developed countries have chances to involve in privatization process as they may hold shares of privatized firms. Spreading wider ownership leads to improvement of economic efficiency.

Disadvantages of Privatization

(1) Natural monopoly

Natural monopoly is one of the serious problems that can be generated from privatization process if governments sell its ownership shares of firms operating in natural monopoly industries such as gas, railways, electricity, to one or few investors. Competitive pressures are not generated; consequently, market failures are created. In some cases, having public

monopoly might be better than having private monopoly because governments are more likely to protect consumers.

(2) Public interest

Profitability is not a primary objective of public industries such as education, health care, and public transportation. Nationalizing these industries is the first sight of public interest even though the quality of services is relatively poor and unprofitable. Privatization of those industries may lose public interest.

(3)Potential dividends

Governments may lose potential dividends if profitable SOEs are privatized. In other words, governments gain more revenue from operating wealthy state enterprises than privatizing them.

(4) Increasing inequality

Increasing inequality in wealth distribution is another disadvantage of privatization. Most population who are able to purchase state assets are quite wealthy. This makes redistribution of wealth is increasingly unequal. The gap between the poor and the rich has become larger and larger.

(5)Economies of scale

Privatization causes losing economies of scale since large-sized SOEs normally partition into small-sized ones. Small-sized privatized SOEs are not able to take advantages of economies of scale, especially in public transportation industries.

(6) Employment losses

In short term, privatization may lead to reduce employment. In fact, newly privatized SOEs are more motivation to be efficient and profitable by reducing their costs. Cutting quantity of employment is a common way of reducing costs in the short-run. However, it is potential to create more jobs in the future when they appropriately enhance their business operation.

1.1.5 A history and evaluation of privatization in the world

Throughout history, public and private ownership have still exited simultaneously in the market. Governments must determine how appropriate their roles are in the market in order to achieve efficiency of resources allocation. Sobel (1999) states that the state ownership, in the ancient Near East, was more common in production markets than in commercial market where private sector was developed. Transferring from the state sector to the private sector, labeled as 'privatization', demonstrates the failures of the nationalization after the Great Depression of 1930s and the two World Wars. Since the 1980s, privatization has considered as a key program for industrial restructuring and economic reforms. The trends of privatization can be divided into three periods as described in the following Table 1.2.

Table 1.2: Brief History of Privatization

Period	**Privatization programs**
1950s	The Churchill government's denationalization of the British steel industry, the first privatization
1961	The Federal Republic of Germany's Adenauer Government launched the first large-scale
1977	Small British Petroleum, Other Sales
1979-1983	First Thatcher Government
Nov-84	The Turning Point: British Telecom
1986-1988	The French Chirac Government
NTT 1987-1988	Privatization Spreads To Asia
1991-1997	Transition in Central, Eastern Europe
1994-2000	Golden Age of EU Privatizations
1990s	Latin America Embraces, then Halts Privatization
2000-2009	Privatization Drops, then Bounces Back
2000s	Opportunistic EU Privatizations, As Markets Allow
Since 2002	China Adopts Its Own Brand Of Privatization
Since 2006	Emerging Markets Take the Privatization Lead
2009-2011	GFC Nationalizations, Then Sales Mostly US

Source: William Megginson (2011)

The 1^{st} ***phase (before 1970s)***

William L. A. M. and Jeffrey M.'s discussion (2003, pp. 25-26) shows that 'the organization of economic activity and the ownership of the means of production and trade have

moved throughout history from the state sector to the private sector and back at many times and in many ways. However, privatization as the term is used today really begins with the Great Depression of the 1930s and the two World Wars' (ibid:26). The Great Depression demonstrates the failure of capitalism which is to require massive government intervention in the economic matters. The devastation of the two world wars led to increase government actions for recovering economies. In addition, some major industries, such as railroad, coal, iron and steel, had quickly nationalized with the motivation of full employment and high growth rate.

Almost 20 years after the Great Depression, there were controversies about inefficient resources allocation of state ownership. Privatization was embraced as a technique to address state ownership failures. The first privatization was introduced in the British steel industry under the Churchill government's denationalization during the early 1950s. The first large-scale privatization program was launched by the Federal Republic of Germany's Adenauer Government, ideologically motivated 'denationalization' program of the post-war era in 1961 (William L. M. and Jeffry M. N., 2003, pp.31:5).

The 2^{nd} phase (from 1980s to 1990s)

The second phase is associated with the Margaret Thatcher's privatization program in the UK in 1979. Yotopoulos (1989) argues that the Pinochet government in Chile is the first government that had initiated a large-scale privatization program, before the UK's privatization program. However, most people have assumed that the Margaret Thatcher's privatization theory has been the most important program of modern privatization since the 1980s. As following, privatization has become a dominant measurement for industrial restructuring in many countries during this period and up to present. The number of privatized transactions per country per year, on average, increased from three in the 1980s to five in the 1990s (World Bank, 1995). Although privatization activities have been increasing, the state ownership has still dominated in many developing countries and in some major sectors. According to the World Bank indicator statistics (Kikeri, 2005), privatization trends during the period from 1980s to 1990s could be summarized in the following main movements:

- While privatization transactions were reduced in the late 1990s and slowly recovered after 1997, the average value of transactions gradually increased thanks to privatization of a number of large-sized SOEs. The goals of implementing privatization in developing countries were to improve productivity of privatized public enterprises, to enhance investment capital accessibility, and to reduce fiscal burden.

- Regarding regional trends, the highest number of privatization transactions was in Eastern Europe, followed by Latin America and Sub-Saharan Africa. However, most of privatized SOEs in Latin America, Sub-Saharan Africa, and Central Asia are small- and medium-size, compared with other regions.

- In developing countries, 50 percent of total privatization activities came from foreign investment in which Latin America, Europe and Central Asia, and East Asia contributed by 56 percent, 23 percent, and 15 percent, respectively. In East Asia and Pacific region, China was the major recipient of foreign investment in privatization proceeds, followed by Thailand, Indonesia, and Malaysia.

- In terms of sectoral trends, privatization processes were highly concentrated in banking, telecommunication, and power industries.

- Mass or voucher privatization is a common technique for transferring a huge number of SOEs in the Eastern Europe region.

The 3^{rd} ***phase (from 2000s up to now)***

This phase could be divided into two periods, from 2000 to 2008 and after the global financial crisis until now. According to the World Bank statistic indicators, OECD report (2009), and the Privatization Barometer reports (2011-2014), the phase is highlighted as the below trends:

** Before the global financial crisis:*

- SOEs privatization have become one of the largest economic activities of OECD countries. Germany, France, and Italy contributed almost 50 percent of total privatization proceeds.

- Using initial public offerings (IPOs) for partial privatizations has been as a common method since 2000 and took off in 2007. East Asia is the region taking lead in privatization

revenue thanks to IPOs, followed by Europe and Central Asia. Chinese IPOs dominated in the East Asia region.

- Regarding regional highlight trends, privatization revenue steeply fell in the Middle East and North Africa and increased in Latin America and Sub-Saharan Africa. South Asia was relatively stable in privatization process.

- Finance and infrastructure industries were highlighted sectors, which accounted for almost 70 percent of total privatization values. The finance transaction value, including banking, real estate, and insurance, sharply increased from USD25 billion in the 2000-2005 period to USD61 billion in 2007. The transaction value of infrastructure in 2007 reached to USD28.4 billion. Telecommunication and electricity were the two leaders in privatization, compared with other infrastructure industries.

** From the post-crisis period until present:*

- As a result of the global financial crisis, a number of privatization activities have immediately dropped and capital inflows quickly declined in developing countries in the post-crisis period of 2009-2011. The years 2012-2014 represented the beginning period of increasing privatization activities. This trend appears to continue in the next few years.

- After more than two decades of privatization, SOEs continue to play an important role in many sectors and many economies in Sub-Saharan Africa, South Asia, and the Middle East and North Africa.

- The EU's privatization has significantly recovered since 2013 in both total number and value of privatization transactions. Continuing the trend of previous period, China has been the leading privatizer in South Asia, followed by Hong Kong, the United Kingdom, Greece, Australia, Turkey, and the United States (PB report, 2014).

- Share issue privatization (SIP) tends to be a common method, for instance accounted for almost 80 percent of total divestment in the period of 2013-2014, compared with auctions, targeted stake sales, and share repurchases.

Generally, privatization programs continue to be a principal issue for economic development and global finance in the long-term. This wave will be more room to continue deepening and spreading in emerging economies (see Appendixes).

1.2 Literature review on effects of privatization

Impact evaluation of privatization has drawn attention of many scholars and policy makers around the world. Some of scholars examine the effect of privatization on fiscal and macroeconomic performance, market competitiveness, and market liberalization. Regarding the relationship between economic growth and privatization, the estimation results are contradictory among empirical researches. While Plane (1997) and Barnett (2000) point out that this relationship is significantly positive in developing countries over the 1984-1992 period, Cook and Uchida (2003) show a robust result of the negative effect of privatization on economic growth. For capturing different methodological approaches in their studies, it is likely to rule out a possibility of having positive or negative impact on economic growth. In terms of fiscal burden relief, examining fiscal impact of privatization is relatively difficult because it seems to have a link between the net value of proceeds and fiscal burden. In many cases, fiscal burden has been significantly reduced due to the big net revenue from state asset sales. The state budget is saved thanks to an increasing privatization proceeds which can be substituted for other sources of domestic financing (David et al., (2000)). However, the Pinheiro and Schneider (1995) study concludes that privatization programs have not improved the fiscal balance in Argentina, Chile, Mexico, and Brazil because the privatization returns received quite late and were too small.

Other scholars investigate to measure the magnitude of firm-level effects of privatization on enterprise performance. Shirley and Walsh (2001) review 52 empirical studies on the link between privatization and enterprise performance in both developing and developed countries during the 1971-1999 period. They find that public enterprise performance has been far worse off than private and privatized enterprises in the majority of their reviewed studies. The other 15 studies conclude that there is no significant or ambiguous relationship between enterprises ownership structure and its performance.

Other comprehensive surveys of this field are undertaken by Megginson and Netter (2001), Djankov and Murrell (2002), and Megginson (2005). They demonstrate that privatization has a significantly positive impact on enterprise performance in most of empirical studies. In addition, D'Souza and Megginson (1999) focus on evaluating post-privatization

performance of enterprises. The results also illustrate that there is a significant improvement of performance of newly privatized enterprises, particularly in terms of profitability, dividend payments, and operating efficiency.

Given the large collection of published studies on impacts of privatization, I mainly focus on reviewing empirical studies related to the impact evaluation of privatization on SOEs performance. Therefore, the chapter is documented to review two research domains of privatization which are impact evaluation of privatization and effectiveness of privatization methods (see Table 1.8 and Table 1.11). These domains are the basic frameworks to serve my research objectives presented in the next chapters.

1.2.1 Impact evaluation of privatization

Profitability, productivity, and governance efficiency

In fact, governance efficiency and financial profitability are the two major outcomes of privatization. Most of empirical literatures suggest that privatization have a significantly positive impact on productivity, profitability, and governance efficiency (see Table 1.3).

In terms of productivity and profitability, Cook and Kirkpatrick (2003:216) conclude that privatization, on average, has led to an improvement in financial profitability and economic performance in developing countries by comparing firm performance before and after privatization. Notably, Pohl, Anderson, Claessens, and Djankov (1997) use a sample of 6,300 private enterprises and SOEs from 7 Eastern European countries during the period of 1992-1995. Their estimated results reveal that a privatized SOE will increase its productivity for 3 5 times more after 4-year privatization compared with a SOE counterpart. By using the sample of 92 countries, LaPorta, Silanes, Shleifer (2000a) conclude that privatized firms have increased its productivity and investment, and reduced its prices. Anderson, Lee, and Murrell (2000) point out that ownership changes and competition influence productivity of privatized firms in Mongolia. Angelucci, Estrin, Konings, and Zolkiewski (2001) also prove the existance of the effect in Romania, Bulraria, and Ploland. By studying effect of privatization on revenue performance and cost reduction, Frydman et al. (1999) conclude that privatization has a significantly positive impact on

revenue performance of SOEs which were privatized to outsiders, including foreign owners. However, cost reduction does not reflect in the case of privatized firms in Hungary, the Czech Republic, and Poland. Additionally, in a study on the sample of 23 comparable international airlines from 1973 to 1983, Ehrlich et al. (1994) argue that the effects of privatization on higher productivity growth and lower cost is statistically significant in the long-run but are ambiguous in the short-run. Earle and Telegdy (2002) find that privatization leads to higher labor productivity growth in Romania.

Table 1.3: Summary of studies of firm-level impact of privatization in developing countries

	Mean before privatization	**Mean after privatization**	**Share of firms with improved performance (%)**
Profitability (net income/sales)	0.05	0.11	63
Efficiency (real sales/employee)	1.92	1.17	80
Output (real sales)	0.97	1.22	76
Leverage (total dept/total assets)	0.55	0.5	63
Dividends (cash dividends/sales)	0.03	0.05	76

Source: Davis et al. (2000, Table 8), based on Megginson et al. (1994); Boubakri and Cosset (1998); D'Souza and Megginson (1999); Megginson and Netter (1999)

There are some studies exhibiting the opposite findings compared to those mentioned above. According to Wallsten (2001), privatization on telecommunication industry has negative correlation with mainline penetration and does not create many benefits from this. He argues that privatization in this industry should combine with a separate regulatory framework in order to enhance labor efficiency as defined by employees per mainline and to improve connection capacity. Villalonga (2000) estimates enterprises efficiency, measured by rate of return on assets, of 24 enterprises from different industries in Spain. She finds that privatization program has not improved its efficiency since it might be influenced by political factors in Spain.

Regarding governance efficiency, there are few empirical researches on the effect of privatization on governance efficiency. For example, recent studies by Ramamurti (2000) and Dharwadkar (2000) emphasize the important role of privatization on the governance improvement in emerging countries where both economic institutions and capital markets

are well developed. Frydman et al. (1999) and Villalonga (2000) argue that privatization to foreign owners, who have more incentives to improve management, leads to improve governance efficiency as well as enterprise efficiency. The positive and significant relationship between post-privatization performance and ownership concentration is found in the study of Boubakri et al. (2005). Megginson et al. (1994) discuss that management and governance structures are the major changes for improving enterprise performance after privatization programs.

1.2.2 Effectiveness of privatization methods

As outlined earlier, each privatization method has different pros and cons. Therefore, choosing privatization methods depends not only on privatization objectives but also on social and economic backgrounds of each country. A few studies on effectiveness of different privatization methods has been carried out in comparison with the numerous well-documented performance outcomes after privatization process (see Table1.3). Notably, the researches of Megginson, Nash, Netter and Poulsen (2000) and Bortolotti, Fantini and Siniscalco (1999) provide the most helpful results for selection of privatization methods. The former is to examine the choice between mass privatization and assets sale with the sample of 1,992 privatized firms; 767 and 1,223 of which are using share offerings and direct sales, respectively. Their results show that capital markets and political factors have significantly influenced selection of privatization methods and share issue privatization (SIPs) is more likely to be used in under-developed capital markets. Privatization has more tendencies to occur through SIPs in the country having greater the selling government's deficit and conservative. The empirical evidences on impact of privatization confirm that the impacts are different across countries and industries. It depends on which methodology approaches and data set were used.

1.3 Efficiency effects of privatization: Experiences from the past

1.3.1 United Kingdom

The UK's privatization has known as a successful case in transferring state ownership from public to private sectors since 1979. According to Price Waterhouse (1989a; 1989b), the major objectives of privatization from most of governments include (1) raising revenue for the state, (2) promoting economic efficiency, (3) reducing government interference in the economy, (4) promoting wider share ownership, (5) providing the opportunity to introduce competition, and (6) subjecting SOEs to market discipline. These objectives were utilized under the Thatcher's scheme with the aim of not only transferring state ownership to private but also restructuring and liberalizing the national capital market. After more than 20 years of privatization, the Thatcher's administration has created a competitive market based on regulations for competition in order to prevent monopoly power rising from privatization of natural monopoly industries. However, Helm (2001) argues that it is not sufficient to create competition by introducing general competition law. The government should promulgate much more regulations which can be adopted to utilize the benefit from privatization proceeds.

The Margaret Thatcher's Conservative administrations (1979-1990) had successfully operated to privatize a majority natural monopoly industries including telecommunication (1984), gas (1986), airways (1987), water and sewerage services (1989), electricity (1990) and railways (1993-1996) (refer to Table 1.4). The UK is known as the first country offers state-owned shares to the public. As a result, the government was successful in privatizing more than 90 percent of the total number of SOEs. The UK's practice of privatization has been spread out around the world.

Major achievements of privatization

Privatization in the UK has generated significant achievements as below:

- *The government has changed its roles from a market provider to a market supervisor.* In particular, the government had no longer control over firms and provided opportunities

Table 1.4: UK Privatization via Public Offer of Shares, 1979-1996

No	Industry	Date of offer	% Sold	Num	Industry	Date of offer	% Sold
1	British Petroleum	1979.10.	5.2	20	South West Water	1989.12.	97.4
		1983.9.	7.2	21	Thames Water	1989.12.	97.4
		1987.11.	36.8	22	Welsh Water	1989.12.	98.4
2	British Aerospace	1981.2.	51.6	23	Wessex Water	1989.12.	98.4
		1985.5.	59	24	Yorkshire Water	1989.12.	97.8
3	Cable&Wireless	1981.1.	49.4	25	Eastern Electricity	1990.12.	97.6
		1983 .12	22.3	26	East Midlands Electricity	1990.12.	97.5
		1985.12.	31.1	27	London Electricity	1990.12.	97.5
4	Britoil	1982 .11.	51	28	Manweb	1990.12.	97.5
		1985.8.	49	29	Midlands Electricity	1990.12.	97.7
5	Amersham International Associated	1982.2.	100	30	Northern Electric	1990.12.	97.5
6	British Port Holdings	1983.2.	51.5	31	Norweb	1990.12.	98.4
7	Enterprise Oil	1984.7.	100	33	Soughern Electric	1990.12.	97.5
8	Jaguar	1984.8.	100	34	South Wesern Electricity	1990.12.	97.5
9	British Telecommunication	1984.12.	50.2	35	Yorkshire Electricity	1990.12.	97.5
		1991.12.	25.9	36	Regional Electricity	1990.12.	
		1993.7.	20.7	37	National Power	1991.3.	60.9
10	British Gas	1986.12.	96.6	37	National Power	1995.3.	38.3
11	British Airways	1987.2.	97.5	38	PowerGen	1991.3.	59.5
12	Rolls-Royce	1987.5.	96.7	38	PowerGen	1995.3.	36.6
13	BAA	1987.7.	95.6	39	National Power-PowerGen	1991.3.	
14	British Steel	1988.12.	100	40	National Power-PowerGen	1995.3.	
15	Anglian Water	1989.12.	98.4	41	Scottish Hydro-Electric	1991.6.	96.6
16	Northumbrian Water	1989.12.	98.4	42	Scottish Power	1991.6.	96.6
17	North West Water	1989.12.	98.4	43	Scottish Hydro-Electric/power	1991.6.	
18	Severn Trent	1989.12.	98.4	44	Northern Ireland Electricity	1993.6.	96.5
19	Southern Water	1989.12.	98.4	45	Railtrack	1996.5.	98
		1989.12.	98.4	46	British Energy	1996.7.	87.8

Source: Curwen and Hartley (1997) and Price Waterhouse (1990)

for them to make commercial decisions such as recruitment, investment, price, and environmental criteria. In most cases, the UK's government transferred at least 51 percent of state-owned shares to private sectors. For example, 51 percent of state-owned capital of the British Telecommunication was sold to private investors in 1984. The remaining ownership shares held by the government was less than 21 percent in 1993.

- *The capital market has developed as a crucial result of privatization.* The UK has privatized state enterprises by flotation mechanism to attract retail shareholders. This method can be used to expand participation in the capital market. The market, in turn, has to be improved to achieve better returns from selling state-owned assets. As mentioned earlier, the public flotation method is quite costly and complexity compared with trade sales. The method has been used to be adopted for privatizing large-sized state enterprises. However, the UK has also used it for privatizing small-sized ones by offering state-owned shares to limited retail investors, instead of the whole public like the sale of Atomic Energy Authority (AEA) Technology in 1996. Those transactions provided good opportunities to develop the stock exchange market in particular and the capital market in general.

- *The institutional market has gradually improved stemming from the effort of boosting privatization programs*, especially financial institutions. The London's market has become one of the largest foreign exchange markets. Together with the markets in Tokyo and New York, the London's market has attracted a huge international investment capital resulting from high standards of regulations. It is the most liquid and accessible market.

- *The domestic shareholders have had a significant increase.* The UK's privatization process has been expanded to retail shareholders in the 1980s, increasing from 3 million to around 10 million shareholders. This contribution has, generally, also influenced the stock exchange which pushed the UK's capital market to become more liquidity and strength.

Lessons from experiences

The following four valuable experiences from more than 20 years of the UK's privatization should be considered for implementation of privatization in developing countries. Firstly, governments should well prepare necessarily initial conditions for successful pri-

vatization programs. These are restructuring core business activities; establishing regulations to avoid monopoly power and to protect consumers; and developing innovative techniques for privatization proceed such as the Retail Price Index X (RPI-X) method or "book building" techniques.

Secondly, governments should introduce special incentives to encourage small retail investors to involve in privatization programs. For example, investors have opportunities to extend payment period of buying ownership shares or to reach better pricing information. Moreover, it is necessary to conduct typical mechanisms to attract greater public involvements in buying state ownership of firms.

Thirdly, generating a comprehensive regulation for privatization is another lesson from the UK's privatization. The UK developed the legal structures for improving management techniques and business performance of private firms.

Lastly, external advisers are an important factor to ensure that governments can obtain more benefits from privatization proceeds. The UK's government has used not only internal staffs but also external consultation experts in sales of its ownership. Combining government officers who deeply understand the process and external experts who provide independent sales advice are advisable.

1.3.2 South Korea

As in many other developing countries, public enterprises have played a crucial part in the Korean economy since the postwar. The Korean government introduced a major reform in 1983 to improve public enterprise performance, particularly by giving greater autonomy to managers and providing incentives for better public enterprise performance. The history of privatization in Korea can be divided into six phases as described in Table 1.5. The first phase (1968-1973) focused on privatizing most of the public enterprises in manufacturing industries. In the second phase (1978-1983), the government enforced to privatize many financial public institutes. The third phase of privatization aimed to reduce the state ownership of public enterprises. The fourth phase (1993-1997) was embarked by continuing to privatize 58 public enterprises, excepting the ones are in infrastructure

industries. In the fifth (1998-2002) and the six phases (2008-2014), privatization was extensively implemented as a part of the Korean economic restructuring program.

The history of privatization was most highlighted in 1994 when the KimYoung-Sam's administration launched the first movement towards privatization of large-sized public enterprises, especially four major public enterprises namely Pohang Steel Co. (POSCO), Doosan Heavy Industries and Construction (Doosan H&C), Korea Tabacco and Ginseng (KT&G), and Korea Telecom (KT). The government put a lot of effort in privatization of these enterprises with the aim of achieving more efficient outcomes, although they were already profitable. One of the most important actions to boost the speed of privatization process is the Special Act on Privatization enacted in 1997, right after the Asia financial crises. The Special Act on Privatization aims for further reduction in the state ownership of privatized enterprises. As a result, the 'Big Four' were fully privatized in May 2002 under the Kim Dae-Jung's administration. However, Nam IlChong (2012) argues that the Kim Dae-Jung's administration did not consider that changing various regulations or policies might influence the fundamental change in industrial structure, particularly in energy industries. Restructuring industries such as the natural gas was incomplete and inconsistent with its original restructure plans. The above are the major shortcomings of privatization under the Kim Dae-Jung's administration.

Since the government had sold most of the large-sized public enterprises through public offering, excepting Korea Heavy Industries & Construction (KHIC), the privatization process has attracted many foreign investors who led to the success of privatization. However, in the study of Lim (2003), he points out two remaining issues of full privatization of large-sized public enterprises in Korea. The first issue is the possibility of *'chaebol'* existing in Korea. Some large-sized public enterprises were not privatized to diverse private investors. For instance, KHIC was sold to a chaebol group and the largest shares of KT were sold to SK Telecom which has been the third largest chaebol in Korea since 2003. Chaebols always have possibility to takeover others and might become monopolies to dominate the market. This is one of the issues that the government has to address for further privatization process. The second issue is that politicians and government officials

always attempt to influence newly privatized firms. They prefer partial privatization of public enterprises or try to maintain some special power by using *'golden shares'*. This phenomenon which often limit for further privatization proceeds has commonly happened in most of the developing countries.

Achievements of privatization

Generally, there are four major outcomes from the Korean privatization. Firstly, the reform of public enterprises has been relatively successful. The highlight of this reform is that government intervention on public enterprises was sharply reduced resulting from the implementation of the 1997 Act on the Management Structure Improvement and Privatization of Public Enterprises. Reducing 'parachute appointment'; streamlining the budget planning, procurement, and audit procedure; and clarifying managerial objectives of public enterprises are basic outcomes of the Act (Lim, 2003). In other words, the government aimed to give greater autonomy to managers and provided incentives on the basis of enterprise performance evaluation.

Secondly, the government earned additional revenue from privatization proceeds to finance the fiscal deficit as in many other countries. The value of privatization process during the 1998-2002 period, for instance, was about USD 15 billion, which was significant contribution to overcome the economic crisis in 1997.

Thirdly, private sectors have been promoted in the economy through early privatization of commercial banks. The Korean government tried to privatize commercial banks at the early stage of privatization process in order to enhance market competition and to improve efficiency of financial markets in the first phase. As a result, the development of financial markets has become a critical condition for further privatizing public enterprises successfully in the next phases.

Lastly, privatization has not only reinforced the development of private sectors but also improved the efficiency of capital and product markets. Privatization is a part of the comprehensive reform of public enterprises in Korea. It leads to an increase in the level of market liberalization which is a priority objective of privatization in most of the cases.

Lessons from Experiences

Table 1.5: History of Privatization of Korean Public Enterprises

Phase	**What has been done**	**Main objective and evaluation**
1st Phase ('68 73)	* Privatization of 11 SOEs Korea Machinery/ Korea Transportation Korea Shipping/Korea Ship-building Incheon Heavy Manufacturing Korea Steel / Korea Airline Korea Mining Refinery Korea Saltern / Commercial Bank Korea Fishery Development	* Birth of private companies => market economy * Successful privatization
2nd Phase ('78 83)	* Privatization of 7 SOEs Daehan(Korea) Reinsurance Daehan(Korea) Oil Daehan(Korea) Dredging Corp. Hanil Bank / Jae Il(First) Bank Seoul Trust Bank / Choheung Bank	* Financial market promotion * Since government's intervention did not stop, the objective of the privatization was not fulfilled
3rd Phase ('87)	* Privatization of Korea Stock Exchange * Reducing government share in SOEs KEPCO (Korea electricity Corp.) POSCO (Pohang Steel Corp.)	* Maintains government influence even up to now * Redistribution policy: Sale of government share to individuals rather than companies
4th Phase ('93 '97)	* Privatization: Daehan(Korea) Tungsten Kookmin Bank / Housing Bank and other 7 subsidiaries of SOEs * Reduce government share of 22 SOEs	* Original target: privatization of 58 SOEs except some infrastructure-related SOEs such as telecom, electricity etc. * Only partially successful (Conglomerate's dominance was an issue.)
5th Phase ('98 '02)	* Privatization of 8 SOEs (original plan was 12 SOEs) * Privatization of 67 subsidiaries of SOEs (original plan was 77) * Restructuring and downsizing	* Extensive privatization plan to reduce public sector after the economic crisis ('97) * 4 network industries are not privatized yet. (Electricity, Gas, Railroad, Heating)
6th Phase ('08 '10)	* Privatization of many subsidiaries * Privatization of functions	still under progress

Source: Ministry of Strategy and Finance, 2008.8.11 (Park (2009), modified)[1]

Although privatization programs have generally provided some significant achievements to the Korean economy, the government has still been facing some remaining issues as outlined. Based on that, lessons drawing from Korean experiences include:

- Political commitment is the most important factor for the success of privatization programs in Korea. Governments should put more effort in implementing privatization strategies with a strong political determination.

- Generating regulations to improve internal and external environment is the most essential role of governments. Particularly, a wide change in industrial policies is required to privatize natural monopoly industries. Governments should make sure that those regulations will bring markets work more efficient. In addition, a broad deregulation is necessary for governments to reduce their political interference in SOEs privatization.

- Establishing a comprehensive evaluation system of enterprise performance is a critical lesson from Korean privatization. The system should be independently to evaluate managerial efficiency and to link reward with enterprise performance. However, a successful evaluation system requires essential prerequisites which are political will, adequate skills of staffs for supervising and evaluating performance, and timely and reliable information. Independent evaluation is a crucial feature of the system. For example, the Korean government recruited a number of Korean experts to participate in the performance evaluation system. Members of the evaluation team are replaced every two years in order to eliminate potential corruptions. The government documents a plan to privatize public enterprises based on results of performance evaluation, especially large-sized ones in an efficient way.

- Minimizing political interference, especially in internal operations, is an essential requirement for successful public enterprise reforms. Political leadership should introduce a comprehensive privatization master plan to enhance markets operate more efficient and profitable.

- Creating competition of product markets and efficiency of capital markets is another crucial condition. Privatization cannot be conducted successfully with the absence of these markets. Even if this condition is not sufficient to guarantee that privatized firms

will improve its performance, offering its ownership shares on stock markets might help to improve its performance.

- Widely enhancing public supports is a necessary factor to push the speed of privatization process quickly. An appropriate way is to publicize all problems of SOEs based on evaluation of audit office and benefits of privatization through public media.

1.3.3 Transition economies

Privatization in transition economies is expected to gain better economic efficiency and to successfully transfer into market-based economies. Privatization has become an important part of economic reforms in most transition countries where the governments put much effort into SOEs privatization in order to complete the transition process. Privatization programs are different across countries and depend on bureaucrats because the level of centralization is relatively high in most transition countries.

Privatization scheme has varied across countries. For example, Russia focuses on mass privatization method combining voucher with auction sales to insiders and outsiders (Blasi et al., (1997)). Belarus and Ukraine initiated a similar Russia's model with the aim of diversifying ownership structures by widely spreading vouchers to citizens in association with eventual inside controllers (Filatotchev et al., (2000)). While the Slovak Republic and the Czech Republic pursued to distribute vouchers to citizens with an equal-access chance, Hungary focused on sales assets of SOEs to foreign investors (Carlin & Aghion, 1996). Direct sales have only employed in Estonia among the former Soviet Union, whereas the Central Europe countries often prefer to transfer state-owned shares to outsiders through direct sales or voucher methods (EBRD, 1998).

Depending on bureaucrats is a shortcoming of privatization processes in most transition economies. Bureaucrats usually do not like to initiate privatization programs since they might lose their control over SOEs rather than gain from privatization. With a high level of centralization, the speed of privatization process has been slower than expected level such as in Belarus, Bulgaria, Estonia, Romania, Slovakia, and Ukraine. For example, Romania privatized 527 SOEs, only four of which are large-sized, from 1991 to mid-1994

when the privatization law was adopted.

A dispersed ownership structure is another outcome of privatization programs in transition countries. Russia privatized about 13,000 medium- and large-sized SOEs which account for 76 percent of total industrial employment in Russia though voucher method to insiders and outsiders, including foreign investors (Russian Economic Trends, 1995:40). According to Takla (1994), the Russian voucher privatization provided much larger scale of inside control compared with that of the Czech's scheme. From a review of privatization in transition economies, it appears that the success of the Czech Republic's privatization has become a good model not only for the Eastern European economies but also for emerging economies. Thus, the next part introduces the Czech's privatization as a valuable experience for transition countries like Vietnam.

The Czech Republic

The Czech's privatization programs were first introduced in the early 1990s. More than 1,000 SOEs were announced to be eligible for privatization in November 1991. The Ministry of Privatization received approximately 15,000 proposals, including "direct sales, tender offers, restitution, auctions, and voucher coupons" (Hazlett 1995, 33). After 5-year privatization, over 80 percent of state assets were transferred to private owners.

The Czech's government designed privatization programs into two phases so-called 'small-scale' and 'large-scale' privatization. The first phase, referred as small-scale privatization, occurred from early 1990 until late 1993. There were approximately 22,000 small-sized SOEs were privatized through offering in public auction. The large-scale privatization phase has transferred a large proportion of state assets under voucher scheme. This phase conducted 1,302 privatized SOEs which were mostly medium- and large-sized SOEs by 1997.

From the Czech privatization experiences, policy makers should study voucher privatization and corporate governance for successful privatization implementation. Regarding voucher privatization, the Czech government has adopted a variety of privatization schemes including coupons in order to attract widespread population participating in the program and to equalize involvement opportunity to new investors. In fact, coupon

scheme requires two challenging conditions. Firstly, governments have to develop financial markets through improving relevant legislation. Secondly, they have to generate overnight capital markets though coupon scheme. In addition, the Czech Republic has considered case-by-case sale methods in order to cover an increase of transformation costs.

For corporate governance in the Czech's privatization, the National Property Funds (NPF) is in charge of privatization programs. Institutional innovations associated with privatization were conducted by the National Property Funds for adopting the coupon scheme. As a result, 426 Investment Privatization Funds (IPF) were created and 72 percent of coupon-underwriting investors were sold as investment funds during the phase of mass privatization (Mejstrík, 2003). During the period of 1990-2002, the institutional environment has been reshaped as a result of number of legislative reforms. In September 2002, the government issued an Act of amended business code and security for further improving the institutional environment. The capital market has been developed and supervised by the Securities Exchange Commission since April 1998. Furthermore, the government made a specific approval rule for direct sales and the National Property Funds is responsible for decision making if there are many different proposals.

Beside the success story, the Czech's privatization bears some weaknesses. Firstly, at the beginning privatization phase, the government introduced mass privatization when the legislation framework related to privatization process was inadequate and the capital market performed very poor. The speed of voucher privatization thus was relatively slower than originally expected. The possibility of SOEs reform via coupon privatization was limited. Secondly, lack of SOEs performance evaluation designed for privatization led to lose benefits of privatization. Without valuable economic information, it was difficult to estimate the market values of privatized SOEs in the early phase of the transforming the Czech's economy. Furthermore, since the government sole over 50 percent of state property to the citizens via coupon scheme without well preparing initial conditions, the inequality in the Czech Republic did not reduced and the social inequality even rose (László Török, 2011).

Lessons from Experiences

- Providing incentives to attract great insiders actively involving in privatization is required for speeding up the process. For instance, Russia and the Czech Republic rapidly privatized a number of SOEs, resulting from giving incentives for its insiders.

- Establishing performance evaluation mechanism is a necessary initial condition for both public offers and sale assets.

- Attracting foreign investors to privatization programs should be considered with the aim of improving corporate governance and enterprise performance.

- Designing a strategic plan for privatization should be careful in line with national economic reforms. The plan aims to enhance public supports and social competition. 'Privatization efforts everywhere now rely heavily on existing mangers to formulate a plan' (Manasian, 1991, p. 17).

- Voucher privatization may be adopted in order to privatize a huge number of public enterprises in a short time. However, governments have to well prepare necessary prerequisites for this method as mentioned earlier.

1.4 An overview of State-owned enterprises equitization process in Vietnam

1.4.1 The process of SOEs equitization in Vietnam

Vietnam has initiated an economic reform program known as *'Doi moi'* (Renovation) since the mid-1980s. The reform of state-owned enterprises (SOEs), as a part of the Renovation, started in 1992. The reform mainly focuses on 'equitization' *(co phan hoa)* programs in which the government aims to reduce its ownership of SOEs. Since the economic transition (1986), Vietnamese policy makers have preferred to use the term 'equitization' rather than the term 'privatization'. They believe that equitization is a neutral expression for the Socialism while privatization is a term related to the Capitalism. The concept of equitization in Vietnam is slightly different from the common concept of privatization. The equitization in Vietnam is a process that transfers the whole or partial state ownership

of SOEs to private investors with the aim of improving SOEs performance. In other words, privatization in Vietnam can be either a complete or an incomplete process.

The SOEs equitization process in Vietnam can be divided into four phases which are the pilot phase (1992-1996), the expansion phase of the pilot program (1997-2000), the acceleration phase (2001-2007), and the continuing phase (2008 upon now) (see Table 1.6).

The first phase (from 1992 to 1996)

In the early 1990s, most of SOEs in Vietnam performed in very poor and inefficient ways. Consequently, the economy experienced low growth rate and sluggish development. Vietnamese government initiated privatization programs, officially called 'equitization', to address this problem by issuing the Decision 202-CT dated on June 08th, 1992 on pilot program of SOEs equitization process. The Decision regulates a careful pilot equitization scheme, in which only small- and medium-sized and non-strategic SOEs were equitized and employees of these enterprises had priority rights to purchase their state-owned shares in a preferential duration.

Vietnamese government started to launch the equitization program very carefully for fear that a socialist scheme might collapse like what had happened in the Soviet Union and Eastern and Central European countries. Therefore, only 5 SOEs were equitized during the period of 1992-1996 (Truong et al, 2006). Table 1.7 shows the government hold roundly 30 percent of total ownership shares of four equitized SOEs. The government has remained its influence on those firms as a dominant/significant shareholder. In addition, a large portion of ownership shares belongs to insiders of those firms.

The second phase (from 1997 to 1999)

The second phase is an expansion of the pilot program with the issuance of the Decree 28/CP dated on May 7th, 1996 and the Decree 44/CP dated on June 29th, 1998 on the transformation of SOEs into joint-stock companies. These Decrees provide a comprehensive framework for extending the equitization process at the national level. However, the general principle of the pilot scheme in which only small- and medium-sized and non-strategic SOEs are selected for equitization is kept in the Decrees. Therefore, the speed

Table 1.6: History of the SOEs equitization process in Vietnam

Phase	**Main policy documents**	**Main objectives**	**Main results**
1st Phase (1992-1996)	- Decision 202-CT dated on June 8th , 1992: "Implementing experiments to convert State Enterprises into shareholding Companies"	- Pilot program: only small-medium size and non-strategic SOEs were equitized and the employees of these enterprises have the priority right to purchase the state shares at the preferential duration.	- 05 small-scale equitized SOEs in shoes, transportation, machine, and food-processing industries.
2nd Phase (1997-2000)	- Decree 28/CP dated May 7th , 1996: "Standardizing SOE equitization's procedure" - Decree 44/CP dated June 29th , 1998: "Encouraging equitized firms and laborers with more promotions and benefits"	- Expansion of the pilot program: only small-medium size and non-strategic SOEs were equitized	- 18 equitized SOEs as late as in early 1998 - 287 equitized SOEs in 1999
3rd Phase (2001-2007)	- Decree 64/2002/ND-CP dated on June 19th , 2002: "Promulgating policies on transferring SOEs to equitized enterprises" - Decree 187/2004/ND-CP dated on November 16th , 2004: "Transferring state owned enterprises to equitized SOEs" - Decree 109/2007/ND-CP dated on June 6th, 2007: "Transforming of 100% state charter capital enterprises into equitized ones". (The updated legal document)	- Acceleration of the program: Change the way of equitization of SOEs from direct sales to public offerings, mainly through the initial public offerings (IPOs)	- 3,756 equitized SOEs
4th Phase (2008-2015)	- Decree 59/2011/ND-CP dated on July 18th 2011: "About transforming 100% state capital into joint-stock company" - Decision 929/QD−TTg dated on July 17th, 2012: Approval of Scheme "Restructuring of State-owned Enterprises, focusing on Economic groups and State-owned Corporation period 2011-2015" - Resolution 15/NQ−CP dated on March 6th, 2014: "Solution for speeding up equitization and withdrawal of state capital from enterprises"	- Continuing the program: Introducing the revision of evaluation methods for equitization and the method to set the price of shares for offering strategic investors	- 319 equitized SOEs, 35 of which are state-owned corporations and 01 economic group (namely the Vietnam National Textile and Garment Group)

Source: Author's synthesis

Table 1.7: Capital and ownership structure of the first five equitized firms during the pilot period

Firm name	**Capital**	**Ownership structure (%)**		
	(billion VND*)	**State**	**Employees**	**Outsiders**
Transportation Service Co.	6,200	18.0	77.0	5.0
Refrigeration&Electrical Engineering Co.	16,000	30.0	50.0	20.0
Hiep An Shoes Co.	4,793	30.0	35.2	34.8
Animal Food Processing Co.	7,912	30.0	50.0	20.0
Longan Export Product Processing Co.	3,540	30.2	48.6	21.2

* VND stands for Vietnamese Dong, the currency of Vietnam. The USD/VND exchange rate over the period relevant in the context of this article was around 15,000 VND per USD.
Source: Chu (2002)

of equitization process in this period was relatively slow. The number of equitized SOEs was 18 out of 25 SOEs which were assigned to be equitized in early 1998 (Truong et al., 2006). In 1999, the process started to expand, according to the Decree 44/CP issuance. As a result, 287 SOEs were equitized in this year.

The third phase (from 2000 to 2007)

The period of 2002-2007 is known as a period of equitization acceleration. According to the National Steering Committee for Enterprise Reform and Development (NSCERD), it takes about 500 days to complete an equitization program, which is mainly due to complicated procedures of equitization and limitations of privatization methods. Therefore, Vietnamese government issued the Decree 64/2002/ND-CP and the Decree 187/2004/ND-CP with the aim of speeding up the process. The later Decree allows adopting the method of public offerings, mainly initial public offerings (IPOs), rather than trade sales. IPOs has become a dominant method of equitization during the 2005-2007 period. Furthermore, the speed of equitization process was accelerated after the promulgation of the Enterprise Law (the first version in 2000 and the unified version in 2005) and the Competition Law in 2005, and the Investment Law in 2005[2]. These laws have paved the way for wide involvement of private investors in the equitization process. Additionally, the government established two state enterprises, namely the Debt and Assets Trading Corporation (DATC) in 2003 and the State Capital Investment Corporation (SCIC) in 2005,

[2]According to the Investment Law, foreign investors are allowed to buy up to 49 percent of state ownership of non-financial firms

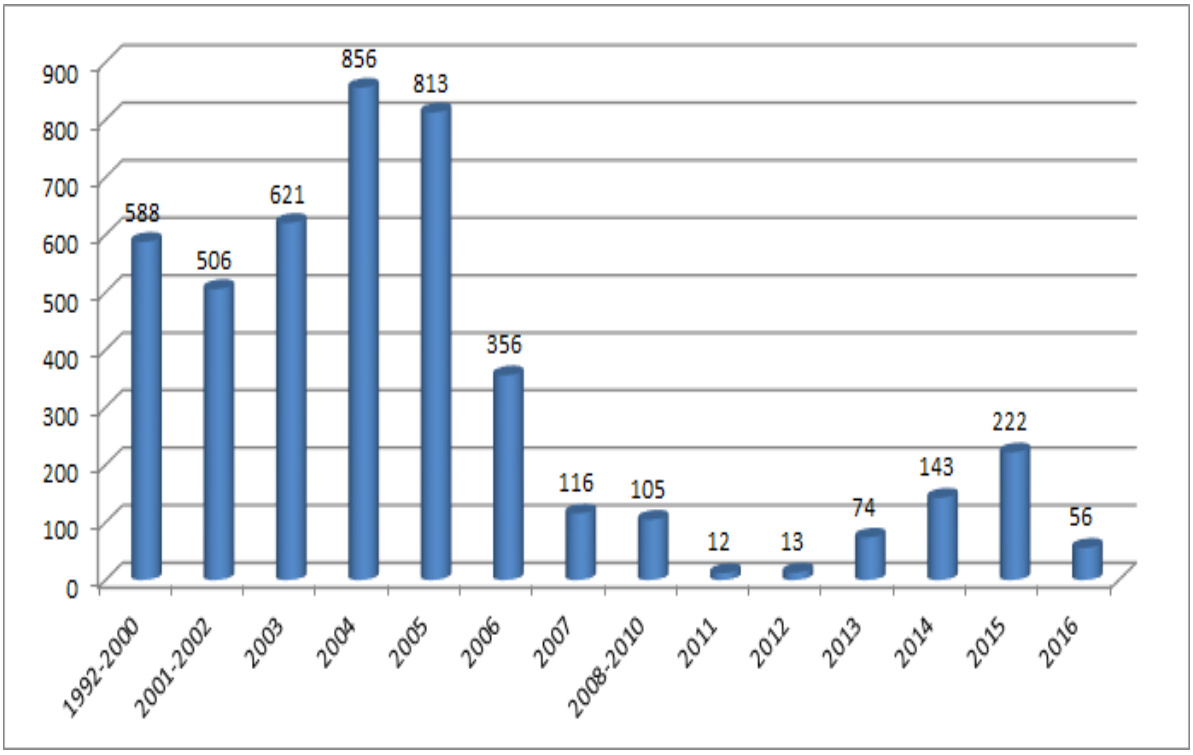
for supporting and streamlining the process of equitization. While DATC is designed to be in charge of resolving inter-SOE debt obligations to trade debt tranches and to enhance the equitization process, SCIC plays a fundamental role to accelerate the process of ownership transformation (see Appendix: Box 1 and Box 2). SCIC, for instance, as the owner representative of the state holding less than 100 percent of total charter capital of firms, is assigned to partially or wholly sell state-owned shares of those firms through public offerings or trade sales. As a result, the process was accelerated, ;for instance, 2,796 SOEs with 100% of state-owned capital were equitized from 2001 to 2005. There are, on average, more than 500 newly equitized SOEs per year (See Figure 1.1). Notably, 813 SOEs with 100% state charter capital were equitized in the year 2005.

Indeed, the process was successful in transforming SOEs into joint-stock companies in this phase. According to the Ministry of Finance, the number of equitized SOEs was 3,756 by December, 2007. However, most of them were relatively small- and medium-sized, only 7 firms are large-sized and have more than 5 or less than 50 million dollars charter capital such as Vietcombank, BaoViet, SABECO, VietInsurance, PVFCCO, and HABECO. Furthermore, strategic SOEs have not designed yet to be equitized through public offerings since the government was afraid of oversupply in the equity market. The higher speed of equitization in the period resulted from the opening of two stock markets, namely the Hanoi Securities Trading Center (HaSTC) and the Hochiminh Securities Exchange (HOSE), where IPOs has operated successful.

The fourth phase (from 2008 -2015)

This phase was remarked by the issuance of the Decree 109/2007/ND-CP (the replaced version of the Decree 187). The new Decree introduces the revision of evaluation methods for equitization and the method to set price of shares for offering strategic investors. The process was expected to speed up after the Decree 109 took effect. However, the security market experienced a bubble and downturn in 2007 because of capitalization proportion and an increase in number of listed firms on the stock markets. Additionally, the global financial crisis has caused the Vietnamese economy to experience high inflation rate and interest rate. Most investors were afraid to invest through stock markets. As a result, the

Figure 1.1: Number of equitized SOEs with 100% state charter capital

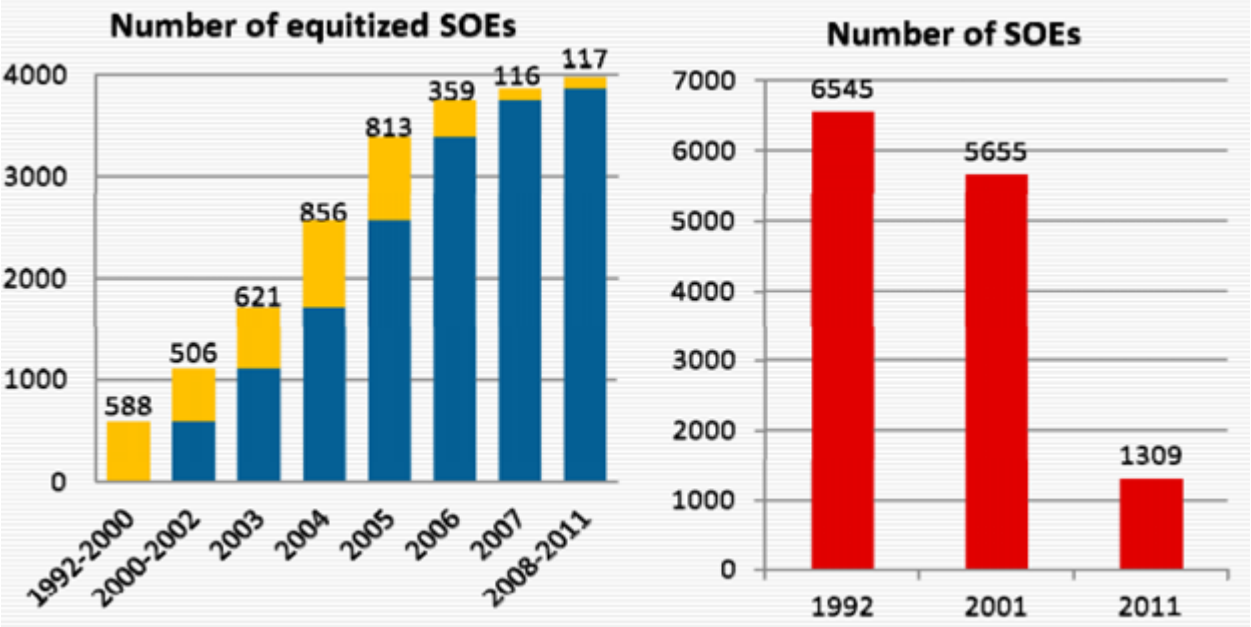


Source: The Ministry of Finance (MOF)

speed of equitization process was slow during the 2008-2010 period.

Although Vietnamese government has put more effort to push the process of equitization with the aim of recovering the economy, the speed has still been quite slow until now. There were 176 equitized SOEs between 2011 and 2013, 99 of which (including 19 general corporations) were partially privatized. The equitization process has been pushed after the issuance of the Decision No 339/QD-TTg dated on February 19th, 2013 approving "the master plan on the economy restructuring for the period of 2013-2020". The master plan is expected to accelerate equitization progress and to diversify forms of ownership structure of SOEs. According to NSCERD, the number of equitized SOEs was 143 enterprises in 2014 (doubling of the number in the year 2013), 01 of which is an economic group (namely the Vietnam National Textile and Garment Group) and 16 of which are general corporations. However, the plan was not completed because of equitization limitations which are introduced in the next part. Currently, the Prime Minister has approved the project of restructuring 20 out of 20 state economic groups and state-owned corporations

Figure 1.2: Number of equitized SOEs and number of SOEs



Source: The Ministry of Finance (MOF)

which are controlled by the Prime Minister. Ministries and line ministries have approved 70 projects of restructuring state-owned corporations.

In summary, after more than 20-year implementation of the equitization process, the number of SOEs with 100% of charter capital owned by the state sharply reduced from over 12000 in 1990 to 5655, 1309, and less than 800 in 2001, 2011, and 2016, respectively. According to the report of Corporate Finance Department, the Ministry of Finance, there were 4,103 equitized SOEs by June, 2014. However, most of these equitized SOEs are small and medium size. The government still hold remarkable portion of total charter capital of those firms. According to the Vietnam Enterprise Census, about 30 percent of total numbers of equitized SOEs had over 50 percent of state-owned shares in 2014. In fact, the government has still been as a dominant player in some strategic industries such as natural gas, railroads, and telecommunication.

*** Achievements from the equitization process**

The equitization process has provided remarkable opportunities for SOEs to improve its performance in post-privatization period, consequently increasing degree of market competitiveness. The following part presents some major achievements from the equiti-

zation process.

(1) The role of private sectors in the economy has been gradually enhanced, especially an increase in number of private firms. After more than 20 years of SOEs equitization, the number of SOEs with 100 percent of charter capital owned by the state has markedly declined. The equitization has become as an important policy to enhance restructuring process of SOEs, consequently pushing the economic reform.

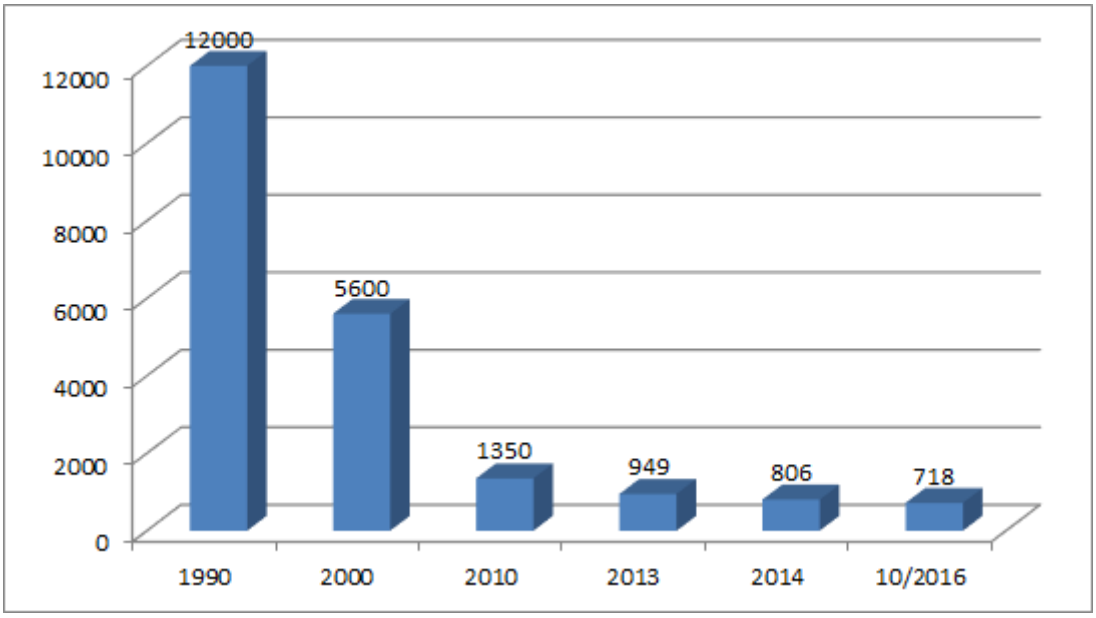
(2) The government has gained significant revenue to finance the fiscal deficit. According to the report of MOF (2011), after two years of the promulgation of the equitization master plan, the support fund of acquisitions and business development achieved VND 55,000 billion from selling state shares (VND 36,000 billion) and dividend yield of state shares in equitized SOEs (VND 12,000 billion). In addition, enterprises have mobilized an appropriate capital from the equitization proceeds. For instance, the total mobilized capital from equitization proceeds was over VND 47,000 billion (about USD 23 million) in the period of 2001-2010.

(3) The equitization process has made significant contributions to improve human capital not only for enterprises but also for the economy. Most of equitized SOEs have been restructured to improve its operation performance. They have mobilized capital from equitization proceeds to strengthen their human resources. Employment capacity and skills of equitized SOEs have been enhanced as a result of an increasing number of technical training programs. Furthermore, employment allocation has been more efficient after implementation of equitization programs.

(4) Capital and stock markets have been relatively developed. Many equitized SOEs have been listed on stock markets. The information about listed companies' performance have become much transparent and declared. As a result, the markets have attracted many domestic and foreign investors.

(5) The equitization process has been remarkably improved performance equitized SOEs. The annual reports on equitization progress conducted by the Ministry of Planning and Investment point out that equitized SOEs have significantly increased its profit, revenue, and efficiency. In particular, more than 90 percent of equitized SOEs have been

Figure 1.3: The number of SOE with 100% of charter capital owned by the state



Source: The Ministry of Finance (MOF)

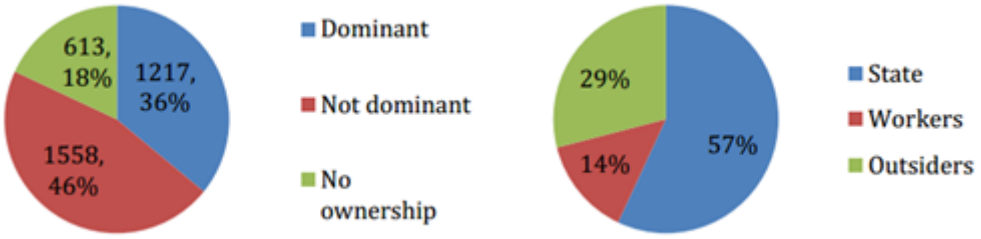
profitable. They contributed to the state budget about 24.9 percent higher than their contributions before being equitized. Labor income and dividend yield, on average, were increased by 12 percent and 17.11 percent, respectively. According to the survey of the Enterprise Innovation Unit, the performance of equitized SOEs has been improved as a result of positive effects of equitization on both working capacity (96 percent of interviewed enterprises reported) and managerial efforts (88 percent of interviewed enterprises reported).

*** Shortcomings of the equitization process**

Beside the above outlined achievements, the equitization process in Vietnam has experienced several following shortcomings that should be considered by the government.

(1) The speed of equitization process has been quite slow. For instance, about one third of total number of SOEs that was designed for equitization completely conducted its equitization programs in the period of 2007-2010. Furthermore, only a small percentage of state capital was sold to private investors. The percentage of state-owned shares of equitized SOEs in the categories 1-24% and 25-50% are almost unchanged during the 2009-2012 period (see Figure 1.5).

Figure 1.4: Remaining state control over fully and partially privatized SOEs



Source: Vu (2012)

(2) The government has still hold a remarkable proportion of charter capital of equitized SOEs (See Figure 1.4). In fact, most of the successful cases of equitization are selling a part of state-owned shares of SOEs to private investors. It is common that partially-equitized SOEs in which the state has still been as a dominant shareholder can also hold significant ownership shares of other newly equitized SOEs. In other words, these newly equitized SOEs have still been influenced by the government. It is difficult to conduct any significant change in their management structure, business operation scheme, and technology after equitization. As a result, their productivity and efficiency have not been improved.

(3) The equitization policies and regulations do not pave the way for many outside investors to involve the process, especially for strategic investors. The regulations related to fully-privatized SOEs have not been formulated sufficiently. Most of the cases were equitized through MBO or EBO methods. Insiders of equitized SOEs hold around 30 percent of its total issued ownership shares. For instance, 46.5 percent of 2,242 equitized enterprises by the end of 2004 belonged to insiders (including employees and managers); and 38.1 percent and 15.4 percent of that belong to the state and outside investors, respectively (Nguyen, 2005). Additionally, IPOs method has limitations because of lacking necessary regulations and developed capital markets. Many equitized SOEs, for instance, in water supply, sewerage, and pharmaceuticals, have not been listed on stock markets after IPOs.

(4) There is no such institution which is in charge of supervising the operation of SOEs

after completing its equitization program. Therefore, some equitized SOEs change its business activities into another activities which might not contribute to increase the degree of industrial competitiveness. Some equitized SOEs used its land for other objectives which are not included in its equitization plan.

(5) Determining actual value of state assets of SOEs is another limitation of the equitization process. Evaluating process of state assets is less transparent and inefficient. State assets of equitized SOEs are likely to be determined at lower value compared with its actual value because of group benefits. There is an unofficial agreement between owner's representatives of SOE and buyers that setting its sale price lower than its actual value. The benefit from this deal will go to a group of people who have a power over the firm.

(6) The equitization program has not included SOEs operating in strategic industries. These enterprises are more likely to take strong influence on production markets and tend to be 'natural monopolies'. This is one of the reasons why the Vietnam's economy has not successfully transferred to the market economy. Furthermore, the government has remained their controls over state economic groups and state-owned corporations which were designed for equitization process.

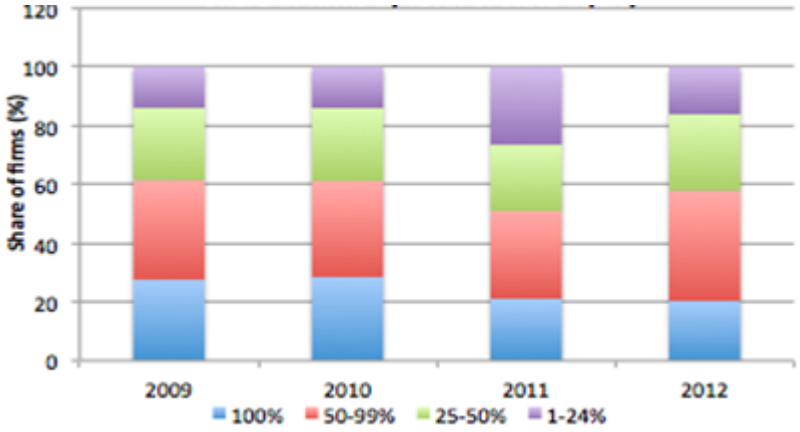
(7) The equitization process has not attracted potential investors who have sufficient capital and prospective capacity for firm's restructuring. Lacking regulatory frameworks, less portion of equitized shares, less transparency, and poor corporate governance and performance are the reasons why potential investors have not been attracted to involve in equitization programs.

1.4.2 The equitization policies and strategies in Vietnam

Vietnam has launched the equitization program since 1992. Most of equitized SOEs have been transformed into joint-stock companies in which the government holds a dominant portion of its charter capital. Furthermore, SOEs which were selected for equitization were small and medium size, and operated in non-strategic business sectors. Therefore, the equitization in Vietnam is referred as a partial privatization process.

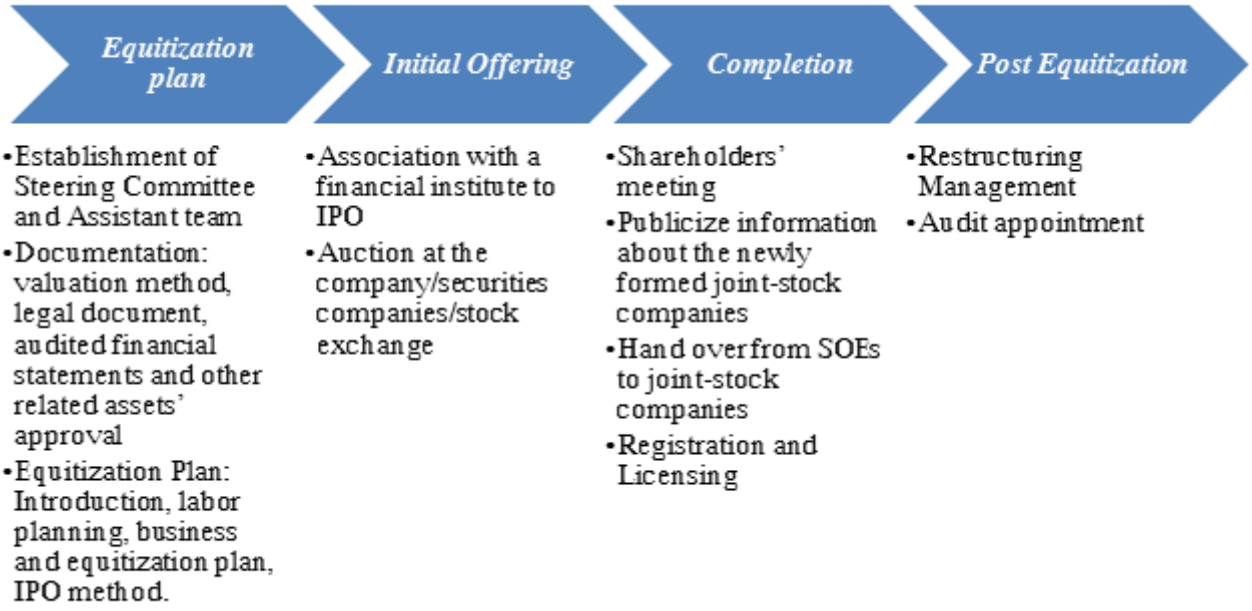
As mentioned in the previous part, Vietnamese government started to launch a careful

Figure 1.5: The composition of firms with state capital



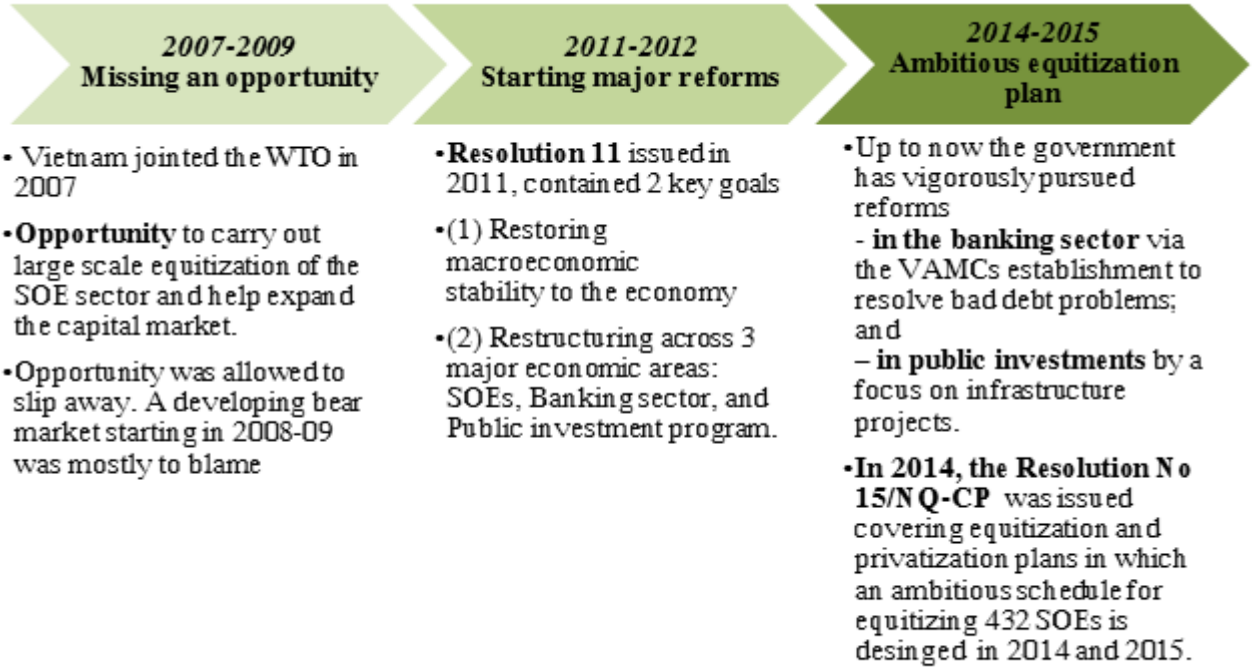
Source: Enterprises Surveys, GSO

Figure 1.6: Implementation process of an equitization project in Vietnam



Source: The Ministry of Finance, legal documents on equitization, Deloitte

Figure 1.7: Equitization progress in the period 2007-2015



Source: The Ministry of Finance

equitization program with the aim of holding its controlling role in some strategic industries such as oil and gas, electricity, and telecommunication. The government has changed the way of equitization of SOEs from direct sales to public offerings, mainly through IPOs since 2005, which is described as Figure 1.6. IPOs has become a major method in order to speed up the process of equitization. However, the speed has been slowed down since 2009 partly because of the global financial crisis. The Decision No 929/QD-TTg dated on July 17th, 2012 introduces one of the most important strategies of SOEs reform. The main strategy of equitization in the 2011-2015 period focuses on restructuring SEGs and SGCs. The government remains to hold more than 51 percent of their charter capital. Selling maximum 49 percent of state-owned capital of an SOE does not attract many investors, especially strategic investors who are more likely to be interested in having a controlling role on the enterprises. This has made application of IPOs to SEGs and SOCs in Vietnam unsuccessful; in this regards, the case of the Vietnam Motors Industry Corporation (Vinamotor) is a prime example.

The recent equitization progress is described in Figure 1.7. In March 2014, the Resolution No 15/NQ-CP was, notably, the most important regulation to speed up the process of equitization and to withdraw the state-owned capital from enterprises operating outside of its core business lines. The Resolution provides some specific guidelines and solutions for the equitization process. SCIC is assigned to take into consideration of investments outside core business lines and to acquire these investments which do not complete the planned capital withdrawal.

Business areas of SOEs have gradually been narrowed since the State-owned Enterprises Law took effect in 1995. According to the Decision No 14/2011/QD-TTg, the state continues to hold 100 percent of charter capital of enterprises which are operating in public utilities, power transmission, aviation and railway and more than 50 percent of charter capital of enterprises in energy, mining, telecoms, infrastructure, cement and steel production, sanitation and water supply, and banking and insurance. The newly updated Decision (namely the Decision No 37/2014/QD-TTg dated on June 18th, 2014) documents that equitized SOEs having more than 50 percent of charter capital that belongs

to the state will be classified into three groups for further equitization process. First, enterprise operating in urban water supply and sewerage, urban lighting, environmental sanitation, natural resource exploration, seed plantation and basic chemical production, rubber growing and processing, and railway and international seaway transport will remain from 50 percent to 65 percent of charter capital under the state's control. The second group consists of enterprises having from 65 percent to below 75 percent of charter capital that belongs to the state and operating in petroleum and natural gas processing, electricity distribution, aviation, cigarette production, banking and finance, managing forest plantation, food and petroleum market, businesses in stabilizing the medicine and improving people's lives in remote areas. The third group includes enterprises having from 75 percent or more of the charter capital owned by the state and operating in business sectors including the management; exploitation and maintenance of airports and terminals, domestic road, waterway systems, and national seaports; telecommunications infrastructure; petroleum and natural gas; and mineral. The government continues to maintain 100 percent of charter capital of enterprises operating in 16 sectors, including national defense and security, explosive material and poisonous chemical supply, national electricity transmission, nuclear electricity, railway operation, post services, maritime, lottery, publishing, money printing and casting, irrigational work management, plantation of protective forest, and policy lending and business sector that requires strategic know-how (Vietnam news, 2014)[3].

As for the equitization process, the Prime Minister first decided which business sectors to be equitized in each term period. Then, the national program of SOEs reform is conducted and approved by the Prime Minister. The process of equitization includes three stages which are formulating equitization plan, implementing equitization plan, and finalizing procedure steps for SOEs conversion into joint stock companies. Figure 1.8 shows the different steps of conducting a SOE equitization program. The first step is establishment of an equitization steering committee for each SOE. The proposed plan of SOEs equitization has to be reviewed by the committee. The second step is to submit

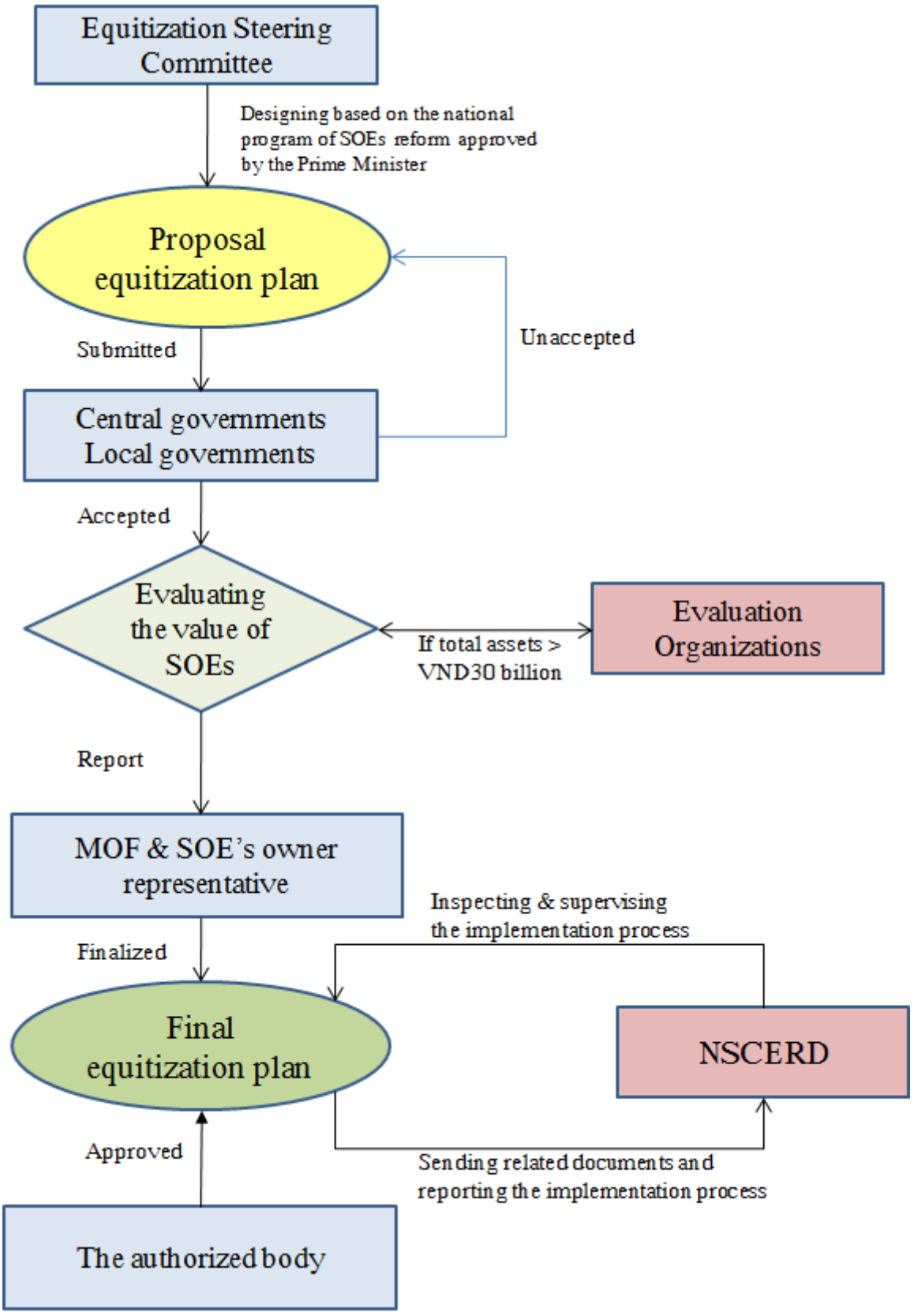
[3]http://vietnamnews.vn/economy/256634/soes-classified-into-three-groups-for-equitisation.html (Accessed on Jun 10th, 2015)

the proposal to ministries or line ministries who take owner's responsibility for the firm. Generally, they will approve the proposal without any important change. If the proposal is inconsistent with the SOEs equitization master plan, they will request the equitization steering committee to revise it until it is accepted by the authorized members. The National Steering Committee for Enterprises Reform and Development (NSCERD) takes responsibility for inspecting and supervising the implementation process.

According to the report of the MOF, 143 SOEs were equitized SOEs in 2014, which are two times higher than the number of equitized SOEs in 2013, and 43 SOEs were equitized by May 2015. The equitization progress of SEGs and SGCs has been enhanced, particularly EVN, VietnamAirlines, Viettel, Vinatex, VNPT, and Vinachem, that have adopted IPOs method. In the year 2015, the government approved the equitization project of 20 SEGs and SGCs. The government has put more efforts to complete the equitization plans of 432 SOEs (246 of which will be equitized in 2015) in the 2014-2015 period as documented in the Resolution No 15/NQ-CP. Figure 1.9 shows the current equitization target of two big state general corporations (90 and 91) and financial public institutes. As for financial public institutes, for instance, the government will remain as a dominant shareholder who keeps less than 65 percent of charter capital of the Baoviet Insurance and commercial joint stock banks, excepting VietinBank.

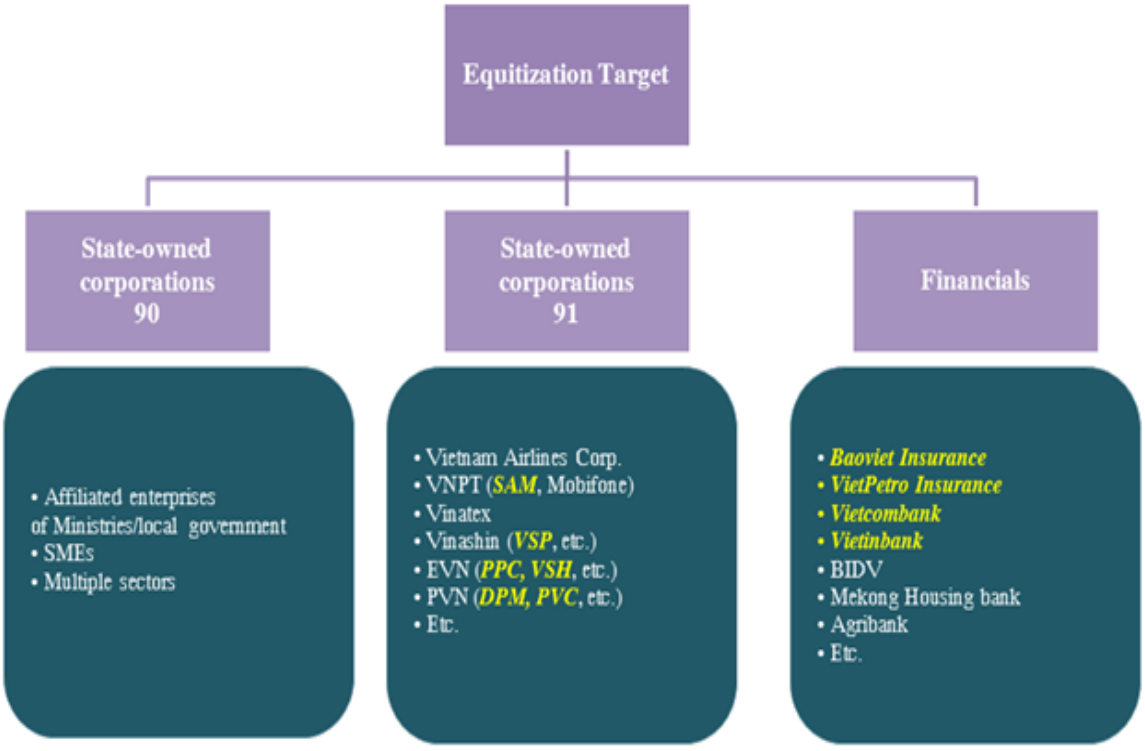
There are three major strategies of equitization process that will be implemented in the next few years. Firstly, most of SOEs with 100 percent of charter capital owned by the state will transfer the right of representative ownership to SCIC for initiating equitization proceeds efficiently. Secondly, selling package of state shares will be widely used in equitization proceeds. In fact, SCIC is the only organization that has a right to use this scheme for selling wholly state-owned shares of SOEs. The scheme will be documented legally for applying in the equitization process. The scheme can be done via public offering, competitive bidding, and negotiation. Thirdly, the government will enhance transparency of equitization and disclose financial information of equitized SOEs. The schedule of equitization process will be widely announced to the public in order to attract more potential investors and increase the level of transparency. Furthermore, im-

Figure 1.8: The documentary process of SOE equitization in Vietnam



Note: NSCERD stands for the National Steering Committee for Enterprise Reform and Development
Source: Author

Figure 1.9: Current strategy of SOEs' equitization in Vietnam



Source: The Ministry of Finance

proving regulations related to equitization and developing capital markets are necessary conditions for the success of equitization process. It is expected to attract more investors, especially strategic foreign investors, to involve the process. In the long-term, the equitization process will target on large-sized SOEs and state economic groups in which the government should fully transfer to private owners. Full privatization of SGCs such as Vinamoto, Cienco5, and Cienco6, will be speeded up in the near future. In short, the equitization continues to be considered as the principal implication for SOEs restructuring and economic performance.

1.5 Conclusion

Privatization programs are different across countries and industries. It basically depends on the socio-economic background of each economy and the characteristics of each industry. Furthermore, impacts of privatization on economic performance are also different

in terms of directions and magnitudes. By reviewing practical experiences around the world, one can argue that a success privatization program generally needs a strong political commitment, a comprehensive regulation for supporting privatization, competitive incentives for widely public involvement, and an effective performance evaluation system. These factors are also necessary to improve economic performance and market efficiency. At firm point of views, enterprises can achieve better performance through privatization process resulting from restructuring management system, enhancing business operation scheme, and upgrading technology and R&D.

In Vietnam, SOEs have played a significant role in the economy after more than two decades of the equitization process. Recently, the government has even put more effort to accelerate the equitization process. It can hardly leverage the system to promote the process in the future because of three main reasons. Firstly, a number of policies issued in the 2011-2015 period have not been appropriate enough to privatize state economic groups and state general corporations. The equitization policies need to be widely open and more comprehensive. Secondly, unwillingness of the leaders of SEGs and SGCs have restrained themselves from implementation of equitization programs. Thirdly, undeveloped capital markets and less transparent information are major obstacles to attract many potential investors who have strong capacities to improve performance of SOEs after equitization. Furthermore, lack of comprehensive legislations for accelerating the equitization is another obstacle to conduct SOEs restructuring. Therefore, the next chapters contribute a significant evaluation on the impact of privatization on Vietnamese SOEs performance and provide valuable policy implications for implementation of privatization programs in a more efficient way.

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Appendix 1

Table 1.8: Summary of recent empirical studies on efficiency effects of privatization

Author	**Country/ Industry**	**Main theme**	**Main performance measurement(s)**	**Main Findings**
Abdullahm Al-Obaidan (2002)	45 developing countries over the period 1980-1993	Measure the magnitude of the macro-economic effect of privatization in developing countries	- Labor per output (GDP) - Technical Efficiency is that fraction of all inputs utilized if the best practice management is employed	- The privatized economies are more efficient than the state-administered economies - Developing countries can increase the utility of their human assets and capital stocks by approximately 45% simply by converting to market-based economies
Steven Barnett (2000)	18 countries	Investigate the relationship between privatization and measures of fiscal and macroeconomic performance	- Real GDP growth - Unemployment rate	- Privatization proceeds transferred to the budget tend to be saved. - Privatization is correlated with an improvement in macroeconomic performance as manifested by higher Real GDP growth and lower unemployment.
LaPorta, Silanes, Shleifer (2000a)	92 countries	Examine the impact of privatization	- Productivity	- After being privatized, firms raise its productivity, increase its investment and lower its prices.
Megginson et al. (1994)	61 privatized companies (12 in developed countries and 6 in developing countries) between 1961 and 1990	Estimate post-privatize enterprises performance in the areas of finance	Mainly finance indicators	- Following privatization sales, profits, investment and operating efficiency typically increased.
Patrick Plane (1997)	35 developing countries over the 1988-1992 period	Explore the economic determinants of privatization programs and the macroeconomic impact of this institutional reform on the growth rate of the GDP	GDP growth rate	- Privatization has a significant positive effect on economic growth - The positive effect is stronger when privatization takes place in industry or infrastructure rather than in other sectors
Cook and Uchida (2003)	63 developing countries between 1988 and 1997	Estimate the relationship between privatization and economic growth	Extreme Bounds Analysis (EBA)	Robust negative partial correlation between privatization and economic growth
D' Souza and Megginson (1999)	78 companies from 10 developing and 15 developed countries over the period 1990-1994	- Examine the significance of median changes in ratio values in post versus pre-privatization period. - Binomial tests for per cent of firms changing as predicted	- Real sales - Operating efficiency - Profitability	- Economically & statistically significant post-privatization increases in output (real sales), operating efficiency, and profitability, as well as significant decreases in leverage. - Capital investment spending increases, but insignificantly, while employment declines significantly

Table 1.9: Summary of Recent Empirical Studies on Efficiency effects of privatization (cont.)

Author	**Country/ Industry**	**Main theme**	**Main performance measurement(s)**	**Main Findings**
Pohl, Anderson, Claessens, and Djankov (1997)	6,300 private and state-owned firms in 7 countries in Eastern Europe during 1992-1995	- Compare the extent of restructuring - Examine which restructuring strategies improve performance the most	- Productivity - Finance indicators	- Firm privatized for 4 years will increase productivity 3-5 times more than a similar SOE - Little difference in performance based on method of privatization, but ownership & financing effects impact restructuring
Claessens and Djankov (1999b)	706 privatized Czech firms over the period 1993-1997	Examine changes in profitability and labor productivity	- Profitability - Labor productivity	- Concentrated ownership is associated with higher profitability and labor productivity - Foreign strategic owners and nonbank-sponsored investment funds improve performance more than bank sponsored funds.
Ehrlich et al. (1994)	23 international airlines of different ownership categories over the period 1973−1983		- Productivity growth - Rate of return on assets	- Private ownership leads to higher rates of productivity growth and declining costs in the long-run. - The short-run effects of changes from state to private ownership on productivity and costs are ambiguous.
La Porta and Lopez-de-Silanes (1999)	233 privatized Mexican firms			- Consumer prices increase After Privatization - The ratios of investment to sales and investment to fixed assets significantly increase after privatization while employment significantly decreases.
Warzynski (2003)	300 Ukrainian firms		- Productivity and Profitability	- Privatization has a marginal positive significant effect on profitability and an insignificant effect on productivity. Competition and privatization might be complementary measures, particularly competition increases the performance of privatized firms.

Table 1.10: Summary of empirical studies on effectiveness of different privatization methods

Author	**Country/ Industry**	**Main theme**	**Main performance measurement(s)**	**Main Findings**
Saul Estrin et al. (2004)	23 countries for the period 1990-2001	Investigate the impact of differences in privatization methods on national economic performance in transition economies	GDP growth rate	- Mass privatization has significant positive effect on economic growth. - Mass privatization should be used to archive beneficial macroeconomic effects in developing countries where capital markets are generally underdeveloped.
Djankov (1999b)	92 privatized firms (voucher privatization) in Georgia and 149 privatized firms (by investment funds or sold to managers for cash) in Moldova between 1995 and 1997	Study effects of different privatization methods on restructuring process		- Privatization through management buy-outs is positively associated with enterprise restructuring - Voucher privatized firms do not restructure more rapidly than still state-owned firms. This implies that managers may have less incentive to restructure because their income is not solely based on the success of the enterprise.
Earle, John S., and AlmosTelegdy. (2002)	2,354 industrial firms in Romania	Estimate the effect of diverse privatization policies on firm performance	Labor productivity growth	- Privatization has had highly significant effects on the growth of labor productivity in Romania. - Sales to outside block holders has the strongest estimated impacts. - Insider transfers and mass privatization are estimated to have significantly smaller positive effects on firm performance.
Djankov and Pohl (1998)	21 Slovakian firms	Estimate the effect of privatization to insiders on firm restructuring		- Privatization to insiders did not hamper firm restructuring, at least in the initial years after privatization. - New insider owners invested heavily in new technology, initiated substantial layoffs, sought foreign partnerships, and were prepared to sell controlling stakes to outsiders in return for additional finance.

Table 1.11: Summary of empirical studies on effectiveness of different privatization methods

Author	**Country/ Industry**	**Main theme**	**Main performance measurement(s)**	**Main Findings**
D' Souza and Megginson (2000)	17 national telecoms privatized companies via share offerings during 1981-1994	Examine pre- versus post-privatization performance changes	- Profitability - Output - Operating efficiency - Capital spending	- Profitability, output, operating efficiency, capital spending, number of access lines, and average salary per employee all increase significantly after privatization. - Leverage declines significantly; employment declines insignificantly.
Boubakri andCosset (1999a)	16 African firms privatized through public share offering during the period 1989-1996	Examine pre- versus post-privatization performance		- Significantly increasing capital spending by privatized firms - Insignificant changing in profitability, efficiency, output, and leverage.
Frydman, Gray,Hessel and Rapaczynski (1999)	90 state-owned and 128 privatized companies in the Czech Republic, Hungary and Poland.	Examines influence of ownership structure on enterprises performance	- Annual growth rate of firm - productivity growth	- Privatization 'works' but only when firm is controlled by outside owners (other than managers or employees) - Privatization adds over 18 % points to the annual growth rate of a firm sold to a domestic financial company, and 12 % points when sold to a foreign buyer. Privatization to an outsider also adds about 9 %points to productivity growth. - Insider controlled firms are much less likely to restructure, but outsider controlled firms grow faster.
Harper (2000)	174 firms privatized in the first, and 380 firms divested in the second wave of the Czech Republic' s voucher privatizations of 1992 and 1994	Examines the effects of privatization on the financial and operating performance	- Real sales - Profitability - Efficiency - Employment	- The first wave of privatization yielded disappointing results. Real sales, profitability, efficiency and employment all declined dramatically (and significantly). - Second wave firms experienced significant increases in efficiency and profitability and the decline in employment, though still significant, was much less drastic than after first wave (-17% vs -41%).

Chapter 2

Impact of Privatization on the Performance of State-owned Enterprises in Vietnam

Abstract

The main purpose of this chapter is to estimate the impact of privatization on Vietnamese State-owned Enterprises (SOEs) performance. In this regard, I apply a difference-in-differences (DID) framework to firm-level panel data in the period of 2004-2012 to evaluate the impact of privatization. In addition, in order to examine how the SOEs with different degrees of privatization were differentially affected, I adopt a continuous treatment intensity based on the state-owned shares of SOEs sold to private investors. The results indicate that privatization in Vietnam has had a significantly positive impact on SOEs performance in terms of profitability and productivity. In particular, enterprises that experienced a greater degree of privatization and had more state-owned shares sold to private investors could improve their performance more than those which experienced a lesser degree.

2.1 Introduction

Vietnamese government has implemented an economic reform program known as *"Doi moi"* (Renovation) with the aim of creating a "socialist-oriented market economy" since

1986. At the heart of the reform, the government has put more effort to privatize SOEs in order to reduce the size of state-owned sectors in the economy. This privatization program is expected to improve managerial efficiency, human resources, and enterprise performance. As a result, the economy is more efficient and the market is more competitive, which are indicated by other countries' experiences (e.g. the United Kingdom and South Korea) and empirical studies (e.g. Due, 1993; Pinheiro and Giambiagi, 1994; Abdullahm Al-Obaidan, 2002).

In Vietnam, most empirical studies show that SOEs have performed better after being privatized. However, this finding is less likely reliable because the results are estimated by their own surveys which might induce perceived evaluations; and by the techniques which could not overcome weakness of impact evaluation methodology, especially selection bias. For example, Dang (2000), Cao (2003), Vu (2006), and Sjöholm (2007) applied comparative and qualitative methods which simply compare SOEs performance before and after privatization. Few quantitative studies by Webster and Amin (1998), Truong et al.(2006), Vo (2012), and Pham (2013) apply DID framework or firm-fixed effect model to study the performance improvement of Vietnamese privatized SOEs. Although these methodologies are relatively robust, they could not verify the common trend assumption of DID method because of short-time study period, and overcome all possible forms of selection bias.

With the aim of addressing limitations of the existing literature, I apply a DID framework to firm-level panel data in the period of 2004-2012 to estimate the impact of privatization. This method helps to eliminate possibilities of selection bias, for example well performed SOEs were first privatized or SOEs were selected for privatization based on some criteria which are not reflected in enterprise performance. My empirical results show that the profitability and productivity of privatized SOEs were significantly improved as a result of privatization programs. By using a continuous treatment intensity based on the state-owned shares of SOEs sold to private investors, I find that the greater the degree of privatization, the better the performance of privatized SOEs.

The chapter is designed into five sections. Following the brief introduction, section

2 is a literature review of empirical studies on impact of privatization on SOEs performance. Section 3 introduces data description, research methodology, and measurement of total factor productivity and value added at firm level. In section 4, I will discuss the empirical estimates of privatization impacts on Vietnamese SOEs performance through DID framework to firm-level panel data. And the last section is conclusion.

2.2 A literature review

Most empirical literatures generally state that privatization has significantly positive impact on enterprise performance. In particular, Shirley and Walsh (2001) conduct the most comprehensive surveys of 52 empirical studies on the link between privatization and enterprise performance in both developing and developed countries during the 1971-1999 period. The majority studies, 32 of those, find that private and privatized enterprises have performed better than that of public counterparts. 15 studies of that conclude types of ownership have no significance or ambiguous relation with enterprise performance. The rest (5 studies) state that performance of private enterprises is better than that of public enterprises. Another synthesis literature reviews by Megginson at al. (2001), Djankov and Murrell (2002), and Megginson (2005) show that there is a significant positive impact of privatization on enterprise performance in the majority of reviewed studies. D'Souza and Megginson (1999) also report a significant improvement of newly-privatized enterprise's performance, particularly in profitability, dividend payments, and operating efficiency.

Notably, empirical results show that impact magnitude of privatization depends on methods of privatization to outsiders or insiders, and on effect of periods which is long-time or short-time. For example, Pohl et al. (1997) point out that a SOE increases its productivity by 3-5 times more after 4-year privatization compared with its counterpart in Eastern European countries. The study of Ehrlich et al. (1994) concludes that the long-run effects of privatization on higher productivity growth and lower cost is significant, but the effects are ambiguous in the short-run. Another study of Frydman et al. (1999) concludes that privatization has significant positive effect on enterprise performance if

SOEs are privatized to outsiders, especially to foreign investors. In particular, annual growth rate of a SOE could increase by 18 percentage points or 12 percentage points if its state ownership were sold to a domestic financial company or a foreign investor, respectively. In addition, a SOE could add its productivity growth by 9 percentage points after transferring its state ownership to an outsider. Furthermore, Earle and Telegdy (2002) find that privatization leads to higher labor productivity growth of Romanian firms.

In fact, impacts of privatization on SOEs performance are controversial. According to Wallsten (2001), privatization on telecommunication industry has a negative correlation with mainline penetration and does not create many benefits. He argues that privatization in this industry should combine with a separate regulatory framework in order to raise labor efficiency (measured by employees per mainline) and to improve connection capacity. Villalonga (2000) estimates enterprise efficiency (measured by return on assets) of 24 firms from different industries in Spain. She finds that the privatization program has not improved the firms' efficiency because they might be influenced by political factors in Spain. These contradicting findings come from specification of business industries or political background of a country which may have an influence on the impact of privatization.

In Vietnam, most of empirical studies use comparative and qualitative methodologies which basically compare SOEs performance before and after privatization in terms of profitability (measured by net profit or net sales) and efficiency (measured by net sales to profit per employee). For example, Fredrik Sjöholm (2007) argues that the privatization has not addressed the efficiency problem since most of the Vietnamese privatized SOEs have no major change in its management and human resources. The SOEs performance improvement is not a result of privatization because the government tried to make them to be profitable before privatization. According to the Mekong Project Development Facility (MPDF, 1998), privatization program seems to have positive effects on firm's efficiency in the 1990s. Other studies (Cao (2003), Cuong.et al. (2006), Vu (2006),) also contribute to the literature that privatization has positive impacts on enterprise

performance in Vietnam. However, their conclusions seem to be less reliable because of various weaknesses of comparative methodology and perceived evaluations.

Few quantitative studies find that the privatization process in Vietnam could create positive outcomes in terms of financial performance (measured by profit on sales ratio, return on assets, and value-added) and employment (measured by number of workers and wages). In fact, their estimates are likely biased because of weak methodology, data collection through firm's manager interviews, and short time period of the data. For instance, Truong et al., (2006) applies the methodology conducted by Meggison et al. (1994). They first compare the operating and financial performance of 121 privatized SOEs and 84 SOEs before and after privatization. Then, they use a DID method to examine the impact of privatization. Their estimates show that privatized SOEs can increase its income before tax on assets (IBTA), income before tax on sales (IBTS), and income tax on equity (IBTE) about 1.72 percent, 1.19 percent, and 3.9 percent, respectively. The financial leverage (measured by total debts to total assets ratio) of privatized SOEs are almost unchanged. This seems to be a valuable study on the impact of privatization process in Vietnam. A recent study of Vo et al. (2012) examines the relationship between ownership structure and enterprise performance based on their own interviews with managers of 22 SOEs and 21 privatized SOEs. The paper documents that private ownership has positive impact on enterprise performance while state ownership has negative impact on its performance. In addition, a positive impact on enterprise performance is a result of a change of SOEs internal environment after privatization. In the year 2012, Pham (2013) randomly selected 43 listed firms, which are on the process of undergoing privatization on the stock markets (HOSE located in Hochiminh city and HASTC located in Hanoi), to examine the financial performance of privatized SOEs before and after privatization. The author concludes that former SOEs have increased, on average, its profit margins and return on assets from 7.15 percent up to 8.55 percent and from 9.8 percent to 11.7 percent, respectively, during 3-year privatization. The performance improvement is a result of increase in net sales and reduction of administrative expenses.

In short, most of the empirical studies have sought to examine the performance im-

provement of Vietnamese privatized SOEs by comparing its performance before and after privatization. They show that privatization has a positive impact on the SOEs performance. However, it is likely that their estimates are biased because of three main weaknesses. Firstly, common trend in pre-treatment period which is an underlying assumption of DID method was not conducted. Secondly, they did not distinguish the value of residual state ownership of partially-privatized SOEs[1]. This is because a partially-privatized SOE in which dominant shareholder comes from the state has performed differently compared with a partially-privatized SOE in which dominant ownership belongs to private sectors. And the third is the possibility of selection bias. I, therefore, apply a DID framework to firm-level panel data in order to eliminate these limitations. The study aims to contribute a robust and significant evidence to impact evaluation of privatization on SOEs performance in Vietnam.

2.3 Data and Methodology

2.3.1 Description of sample selection

The main data set for the study is sourced from the Vietnam Enterprise Census (VEC) conducted annually since 2000 by the Vietnam General Statistic Office (GSO). The VEC provides comprehensive information on demographic data of Vietnamese enterprises. I construct a balanced panel data of enterprises with five or more employees. I choose the year 2005 as a time cut-point to partition the firms into control and treatment groups because of two main reasons. Firstly, Vietnamese government has implemented two important laws which are the Unified Enterprise Law (the first version in 1999) and the Competition Law since 2005. These laws have paved the way for a wide involvement of private investors, especially foreigners, in the privatization process. Secondly, a large number of SOEs which are sufficient for adopting DID framework were privatized in 2005. Furthermore, the study only deals with the period of 2004-2008 with the aim of avoid-

[1]In the study, I define 'partially-privatized SOEs' as privatized SOEs which have still remained state ownership and 'fully-privatized SOEs' as privatized SOEs of which all state-owned shares sold to private investors.

ing potential effects of macroeconomic issues which happened before 2004 and after 2008 on enterprise performance. For instance, the capital markets had not been developed in Vietnam before 2004 because the stock markets and securities joint stock companies were supported by the government. The global financial crisis has affected business environment since 2009. As a consequence, the stock markets have fallen and the total capital motivated through the market declined approximately by 75 percent. The commercial banks started to increase their lending rates. In addition, after the global financial crisis, the government supported firms with financial assistance and subsidies which had not been equally distributed between the public and private sectors. These issues have likely influenced enterprise performance.

The sample consists of 789 SOEs: 300 of those, as a control group, which were selected for privatization but not yet privatized during the post-privatization period of 2006-2008; and the rest, as a treatment group including 416 partially- and 73 fully-privatized SOEs, which sold wholly or partially its state-owned shares to private investors in 2005.

2.3.2 Description of data

I use firm-level total factor productivity (TFP) and value added (VA) per labor as proxies for productivity. The formulas for calculating firm-level TFP and VA are introduced in the next section. Annual profit margin and return on assets (ROA) are as proxies for profitability. Financial and non-financial indicators of enterprises are used as control factors which may reduce residual variance. Control variables are financial leverage, annual sales growth, tangibility, and firm size. It reveals that privatized firms with higher degree of market powers are more profitable because they have ability to raise the market prices of their goods and services. Thus, I use the Herfindahl Index to control the degree of market competition which might affect enterprise performance after privatization. The following Table 2.1 presents measurement of all variables. The sample data descriptive statistics is summarized in Table 2.2.

Table 2.1: Measurement of Firm performance and Explanatory variables

Firm Performance	**Measurement**
1. Profitability	
Profit margin	Total accounting profit before income tax to Gross profit from sale of merchandise and services
ROA	Total accounting profit before income tax to total assets
2. Productivity	
Log(VA_labor)	Log of Value added per labor
Log(TFP)	Log of Total Factor Productivity estimated by Levinsohn & Petrin's method

Explanatory variables	**Measurement**
Sales growth	Log of net sales of merchandise and services at constant price
Firm size	Log of total assets
Financial leverage	Total Debt to Total Equity
Tangibility	Fixed assets to total assets
HHI	The Herfindahl Index is calculated based on the Vietnam Standard Industrial Classification (VSIC) 4-digit industry level codes

Table 2.2: Summary statistics

Variable	**Unit**	**Obs**	**Mean**	**S.Dev**	**Min**	**Max**
Profit margin	ratio	3904	0.017	0.690	-39.519	11.652
ROA	ratio	3883	0.034	0.097	-1.161	2.287
Annual Value added per labor	Mil.VND	3798	24.384	158.824	-7995.17	2044.60
TFP	Index	3619	3.272	3.512	0.006	83.966
TreatIntensity	Unit	3925	0.385	0.352	0.00	1.00
Total Debt	Mil.VND	3906	56359	239242	-2293.91	4634418
Total Equity	Mil.VND	3921	19769	101384	-206765	2830378
Annual sales	Mil.VND	3945	108874	1044797	0.694	38600000
Total assets	Mil.VND	3923	75895	315037	244	6170292
Tangibility	ratio	3915	0.325	0.232	0.000	0.999
Number of labor	Person	3837	374.690	651.800	5	8993
The Herfindahl Index	Index	3945	0.777	0.108	0.003	0.985

Note: The data values are converted at constant prices using the GDP deflator of three major industries including agriculture, industries, and services.

2.3.3 Measurement of Productivity

*** Measurement of Value Added**

As the definition of VA, it is computed by subtracting intermediate inputs from gross outputs. However, the data of production costs are not available in the VEC. Thus, I calculate VA based on the factor income approach (the other is based on the production approach). According to the guideline of the General Statistical Office of Vietnam, VA is measured by following formula.

VA= Labor Compensation + Capital Rental Payment

In which:

Labor Compensation = Salary, bonuses and other allowance + Social Insurance paid replacing salary + Other incomes, which is not counted as production cost

Capital Rental Payment = Depreciation of Fixed Assets + Net Operating Surplus

Net Operating surplus is defined as total profit of enterprise during a year before paying tax. These data are available in the VEC.

*** Measurement of Total Factor Productivity**

I explore the technique of Olley& Pakes (1996) and Levinshon & Petrin (2003) which can correct the simultaneity problem between productivity and inputs to estimate firm-level TFP. Many scholars applied this technique for estimating firm-level TFP because of its appropriate methodology. Levinshon and Petrin use intermediate inputs, while Olley and Pakes use investment values, as a proxy for unobserved productivity shocks. The former argues that 'the investment proxy might fail to adequately address the simultaneity problem' (Levinshon and Petrin, 2003, p.3). The main reason is that the monotonicity condition does not hold in the Olley& Pakes technique. The estimation of algorithm equation is only applied for firms having positive investments. In fact, firms can report negative or zero investment value in a number of cases. As a result, the estimates may lose its efficiency. Intermediate inputs including materials and energy are commonly reported positive value. Thus, intermediate inputs can be used as an appropriate proxy for capturing unobserved productivity shocks. I use firm-level TFP estimated by the

Levinshon & Petrin technique as a proxy for firm productivity.

Basically, the Levinshon & Petrin technique starts from a basic Cobb–Douglas production function with three main components which are total capital (K), total number of labor (L), and intermediates (M). Since the data of production costs is not available in the VEC, I use value added as physical output of firm to estimate firm-level TFP of Vietnamese enterprises. Other inputs of production function are total capital (K) represented by total assets at the end of the year; total number of labor (L) measured by total full-time employees getting paid by firms at the end of the year; and intermediates (M) calculated by subtracting value added from real sales.

2.3.4 Model specification

The study employs an empirical model with the aim of addressing two main hypotheses: the privatization process in Vietnam has had a positive impact on SOEs performance in term of profitability and productivity; and the impact of privatization on Vietnamese SOEs performance depends on the degree of privatization. These hypotheses document a fundamental argument for my further studies in the next chapter.

The regression model for impact evaluation of privatization program based on DID framework to firm-level panel data in the 2004-2008 period is presented as the following equation:

$$Log(EP)_{it} = \beta_0 + \beta_1 TreatIntensity_i * After_t + \sum_{k=1}^{6} \alpha_k X_{ikt} + \sum_{l=1}^{5} \delta_l Region_{il} + \\ + \sum_{m=1}^{5} \gamma_m Sector_{im} + \varepsilon_t + u_{it}$$

Where $(EP)_{it}$ is enterprise performance such as profit margin, return on assets, value added per labor, and total factor productivity at each firm i and in year t. $TreatIntensity_i$ indicates that a continuous measure of state-owned shares of SOEs sold to private investors is measured from 0 to 1. This equals to 1 means that SOE is fully privatized, less than 1 and greater than 0 means that SOE is partially privatized, and 0 means that SOE have not been privatized yet. $After_t$, as dummy variable, indicates the post-privatization period of 2006-2008. X_{ikt} are control variables including Fixed asset to total assets ratio, Debt

to equity ratio, Log(Net sales), Log(Total assets), and the Herfindahl Index. $Region_{il}$ is a dummy variable denoting for the six economic regions of Vietnam. $Sector_{im}$ is a dummy variable that denotes for the main business sector of each firm. And ε_t are control time-fixed effects.

Falsification tests are conducted to verify the common trends between control and treatment groups over the pre-treatment period of 2004-2005. The firm-fixed effect will be applied to estimate the parameters in the main equation. The study deals with robustness and consistency checks.

2.4 Empirical results

This section presents the estimated impacts of privatization on Vietnamese SOEs performance in the 2004-2008 period. Table 2.3 summarizes the estimated results of the main equation by using different measures of enterprise performance. Panel A of Table 2.3 presents the impact of privatization on SOEs performance in all business industries. The coefficients of *TreatIntensity*After* in Panel A indicate that the privatization program has a significantly positive impact on SOEs performance in both profitability and productivity. Particularly, a SOE could increase its ROA, labor productivity growth, and TFP growth by 3.6 percent, 0.457 percentage points, and 0.312 percentage points, respectively, if it is fully privatized. As mentioned earlier, using a continuous treatment intensity helps to distinguish the impact on firm performance with different degree of privatization. For instance, selling 10 percent of state-owned shares of a SOE to private investors can increase, on average, its profitability and productivity growth approximately by 0.36 percent and 0.04 percentage points, respectively.

In order to examine different impacts of privatization that have varied among industries, I restrict the sample to two industries in which most of the SOEs were privatized, particularly processing and manufacturing, and retail and wholesale industries. Panel B and C of Table 3 show the estimated impacts of privatization on enterprise performance in these industries. The impact of privatization on ROA and productivity are relatively

Table 2.3: Estimates of privatization impact on SOEs performance in Vietnam

Dependent variable	Profit margin	ROA	Log(VA/labor)	Log(TFP)
	(1)	(2)	(3)	(4)
Panel A: All business industries				
TreatIntensity*After	0.068	0.036***	0.457***	0.312***
	(0.068)	(0.008)	(0.076)	(0.068)
N	3836	3838	3602	3602
adj.R-sq	0.008	0.050	0.117	0.057
Panel B: Processing and manufacturing industry				
TreatIntensity*After	0.017	0.066***	0.352**	0.266**
	(0.030)	(0.020)	(0.138)	(0.131)
N	1109	1109	1035	1035
adj.R-sq	0.065	0.089	0.093	0.050
Panel C: Retail and wholesale industry				
TreatIntensity*After	0.079**	0.041***	0.406**	0.357***
	(0.033)	(0.008)	(0.166)	(0.134)
N	937	937	879	879
adj.R-sq	0.022	0.115	0.223	0.097

Notes: Treatment intensity indicates that a continuous measure of state-owned shares of SOEs sold to private investor is measured from 0 to 1. This equals to 1 means that SOE is fully privatized, less than 1 and greater than 0 means that SOE is partially privatized, and 0 means that SOE has not been privatized yet. $After$ is dummy variable indicates the post-privatization period of 2006-2008. All models apply a Difference-in-Differences framework to firm-level panel data controlled by regions-business sectors-years fixed effects. Control variables are Fixed asset to total assets ratio, Debt to equity ratio, Log(Net sales), Log(Total assets), and the Herfindahl Index. All values are converted at constant price using the GDP deflator of three major sectors (Agriculture, Industry, and Services). Standard errors in parentheses are clustered at the firm-level. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

similar across industries. In Column 1 of Panel C, the coefficient of *TreatIntensity*After* is statistically significant, which shows a partially-privatized SOE in this industry could increase its profit margin by 0.79 percent by selling 10 percent of its state-owned shares to private investors. Furthermore, ROA of processing and manufacturing SOEs have improved twice as much as its counterparts did in other industries. In other words, they could manage their assets more efficiently to obtain higher returns than those in other sectors.

However, the impact on profit margin of enterprises connected with retail and wholesale industries is significantly different from that of other enterprises operating in other industries. In Column 1 of Panel C, the coefficient of $TreatIntensity * After$ is statistically significant, which shows a partially-privatized SOE in retail and wholesale industry could increase its profit margin by 0.79 percent by selling 10 percent of its state-owned shares to private investors. One of the possible reasons is that privatized firms in retail and wholesale industries can more easily raise the price of products compared to those in manufacturing industries after privatization. In fact, Vietnamese government has provided some supports or incentives for firms operating in retail and wholesale sectors to enhance the competitiveness of the sectors. For instance, the government has built new traditional markets and supper markets, provided investment incentives, supported on marketing and trade exhibition, and promoted international trade fair. According to Vietnam's WTO commitments, retail and wholesale industries have to welcome for all foreign firms, even those with 100 percent of foreign capital, to operate in Vietnam since January, 2015. Additionally, most of the products which are imported from 10 ASEAN countries will be exempt from import tax after 2018. The government has not allowed foreign direct investment (FDI) firms to trade some kinds of imported products with the aim of protecting domestic products. Therefore, retail and wholesale firms can increase its profits more easily compared with those in other industries. Another possible reason is that the government provides corporate income tax allowances and exemption to manufacturing firms, especially for those producing and assembling support products (spare parts and components). This can be a potential motivation for manufacturing firms did

not report the real value of their profit. The difference in governance structure of firms in retail & wholesale and manufacturing industries could be a possible explanation for the different impacts of privatization on profit margin.

Although all possibilities of selection bias, which are addressed by Barberis et al.(1996) and Earle & Enstrin (1997), are not controlled in the study because of lacking appropriate instrumental variables, I am able to exclude some of them directly. I first verify the common trends assumption of DID method in the pre-treatment period. The coefficients of *TreatIntensity*After* are statistically insignificant at 10 percent level, indicating there is statistically no pre-treatment differences between two groups (see Table 2.4 in Appendix). The methodology thus controls one of possible bias stemming from non-random selection of SOEs for privatization (e.g., well performed SOEs were in fact selected for the earlier privatization). To eliminate another possibility of selection bias (e.g., if SOEs are selected for privatization because of some criteria which are not reflected in enterprise performance in the pre-privatization period), I use late privatizers, as a comparison group, which remained 100 percent of state-owned ownership, but not yet privatized during the period of 2004-2008. Eventually, the selection criteria for privatization remained the same in Vietnam during the period of 2004-2012. Furthermore, I estimate the main equation by dropping one year before and one year right after the time cut-point to exclude initial level of performance. The results are statistically consistent across different performance measures (see Table 2.9 in Appendix).

2.5 Conclusion

The privatization program in Vietnam is expected to improve SOEs performance, which can facilitate the economic growth and development. The empirical results indicate that the privatization program in Vietnam has a significantly positive impact on SOEs performance in terms of profitability and productivity. By using continuous treatment intensity based on the state-owned shares sold to private investors, the study documents that fully-privatized SOEs have performed relatively better in ROA, labor productivity, and TFP

than partially-privatized SOEs.

In this chapter, I mainly focus on examining the effect of privatization on SOEs performance in Vietnam. However, it is important to explore what are possible benefits of the privatization process for improving SOEs performance and in what ways privatization should be conducted to achieve better enterprise performance. The next chapter will show the explanation for these such questions.

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Appendix 2

Appendix 2.1: The technique of Levinshon&Petrin (2003)

The technique of Levinshon&Petrin (2003) starts from a basic Cobb–Douglas production function, that is

$$Y_{it} = A_{it} K_{it}^{\beta_k} L_{it}^{\beta_l} M_{it}^{\beta_m} \quad (1)$$

where:

Y_{it} represents physical output of firm i in period t

$K_{it}, L_{it}, and M_{it}$ are inputs of capital, labor, and materials, respectively

A_{it} is the Hicksian neutral efficiency level of firm i in period t

Taking natural logs of equation (1), we obtain a linear production function.

$$y_{it} = \beta_0 + \beta_k k_{it} + \beta_l l_{it} + \beta_m m_{it} + \varepsilon_{it} \quad (2)$$

where lower-case letters refer to natural logarithmic transformation of variables and $Ln(A_{it}) = \beta_0 + \varepsilon_{it}$ in which β_0 measures the mean efficiency level across firms and over time and ε_{it} is time- and producer-specific deviation from that mean. ε_{it} can be decomposed into an observable and unobservable components as below:

$$y_{it} = \beta_0 + \beta_k k_{it} + \beta_l l_{it} + \beta_m m_{it} + v_{it} + e_{it}^q \quad (3)$$

where $\omega_{it} = \beta_0 + v_{it}$ represents firm-level productivity and e_{it}^q is an independent and identically distributed component.

We first estimate the equation (3). Then, estimated firm-level TFP can be calculated by the following equation (4). The value of TFP can be obtained as the exponential of $\hat{\omega_{it}}$ i.e. $\hat{\theta_{it}} = exp(\hat{\omega_{it}})$.

$$\hat{\omega}_{it} = \hat{v}_{it} + \hat{\beta}_0 = y_{it} - \hat{\beta}_k k_{it} - \hat{\beta}_l l_{it} - \hat{\beta}_m m_{it} \quad (4)$$

Levinshon and Petrin use intermediate inputs as a proxy for unobserved productivity to estimate the coefficients of production variable factors such capital, labor, and materials. Hence, intermediate inputs can be shown to depend on capital and productivity, i.e $m_{it} = m_t(k_{it}, \omega_{it})$. This function meet the monotonicity condition since intermediate inputs (materials in this case) strictly increase in ω_{it}. Therefore, this function can be inverted to present unobserved productivity, i.e $\omega_{it} = \varphi_t(k_{it}, m_{it})$ where $\varphi_t(k_{it}, m_{it}) = m_t^{-1}(k_{it}, \omega_{it})$, as a function of observables. Using this expression, equation (3) can be rewritten as

$$y_{it} = \beta_0 + \beta_k k_{it} + \beta_l l_{it} + \beta_m m_{it} + \varphi_t(k_{it}, m_{it}) + e_{it}^q \quad (5)$$

The coefficients in (4) can be estimated in two stages. The first step is to estimate the following equation to obtain the coefficient on labor by using no-intercept OLS.

$$y_{it} = \beta_l l_{it} + \phi_t(k_{it}, m_{it}) + e_{it}^q \quad (6)$$

where $\phi_t(k_{it}, m_{it}) = \beta_0 + \beta_k k_{it} + \beta_m m_{it} + \varphi_t(k_{it}, m_{it})$ is approximated by a higher-order polynomial in k_{it} and m_{it} (including a constant term).

The second step is to recover the coefficient on capitals and materials. In this step, it is necessary to assume that productivity follows a first-order Markov process or $\omega_{it+1} = E(\omega_{it+1}|\omega_{it}) + \delta_{it+1}$, where δ_{it+1} is not correlated with productivity, materials, and capital in period $t+1$. In other words, firms will continue to operate its business in order to archive their productivity level above the lower bound, i.e. $\chi_{it+1} = 1$ if $\omega_{it+1} \geq \underline{\omega}_{it+1}$, where χ_{it+1} represents a variable of survival indicator. Therefore, the following expectation equation expresses survival condition of the firm.

$$E[y_{it+1} - \beta_l l_{it+1} | k_{it+1}, \chi_{it+1} = 1] = \beta_0 + \beta_k k_{it+1} + \beta_m m_{it+1} + E(\omega_{it+1}|\omega_{it}, \chi_{it+1} = 1) \quad (7)$$

The expectation of $E(\omega_{it+1}|\omega_{it}, \chi_{it+1})$ follows the law of motion of productivity shocks, thus $E(\omega_{it+1}|\omega_{it}, \chi_{it+1}) = f(P_{it}, \phi_{it} - \beta_k k_{it} - \beta_m m_{it})$ where $P_{it} = Pr(\chi_{it+1} = 1)$ is the survival probability of firm i in the next period. Therefore, the estimation equation in the second step can be derived as bellows:

$$y_{it+1} - \beta_l l_{it+1} = \beta_0 + \beta_k k_{it+1} + \beta_m m_{it+1} + E(\omega_{it+}|\omega_{it}, \chi_{it+1}) + \delta_{it+1} + e^q_{it}$$
$$= \beta_0 + \beta_k k_{it+1} + \beta_m m_{it+1} + f(P_{it}, \phi_{it} - \beta_k k_{it} - \beta_m m_{it}) + \delta_{it+1} + e^q_{it} \quad (8)$$

Considering equation (8), the coefficient on labor and the survival probability can be estimated from equation (6) in the first step. Then, the coefficients on capital and materials can be estimated from the final estimating equation (9) by using non-linear least squares. The bootstrapping method is applied to calculate standard errors.

$$y_{it+1} - \beta_l l_{it+1} = \beta_0 + \beta_k k_{it+1} + \beta_m m_{it+1} + f(\hat{P}_{it}, \hat{\phi}_{it} - \hat{\beta}_k k_{it} - \hat{\beta}_m m_{it}) + \delta_{it+1} + e^q_{it} \quad (9)$$

Finally, estimated firm-level TFP can be calculated by equation (4)

Table 2.4: Placebo Test for the pre-treatment period

Dependent variable	Profit margin	ROA	Log(VA/labor)	Log(TFP)
	(1)	(2)	(3)	(4)
Panel A: All business industries				
TreatIntensity*Phase	-0.062	-0.009	0.073	-0.039
	(0.048)	(0.011)	(0.102)	(0.094)
N	1521	1521	1422	1422
adj.R-sq	0.311	0.017	0.052	0.017
Panel B: Processing and manufacturing industry				
TreatIntensity*Phase	0.020	0.015	0.096	0.055
	(0.031)	(0.018)	(0.205)	(0.197)
N	441	441	409	409
adj.R-sq	0.092	0.012	0.086	0.06
Panel C: Retail and wholesale industry				
TreatIntensity*Phase	0.011	0.002	0.191	0.002
	(0.015)	(0.006)	(0.209)	(0.174)
N	373	373	347	347
adj.R-sq	0.054	0.010	0.095	0.031

Notes: Treatment intensity indicates that a continuous measure of state-owned shares of SOEs sold to private investors is measured from 0 to 1. This equals to 1 means that SOE is fully privatized, less than 1 and greater than 0 means that SOE is partially privatized, and 0 means that SOE has not been privatized yet. Phase is dummy variable indicates the period of 2004-2005. All models are applied Difference-in-Differences framework to the firm-level panel data controlled by regions-business sectors-years fixed effects. Control variables are Fixed asset to total assets ratio, Debt to equity ratio, Log(Net sales), Log(Total assets), and the Herfindahl Index. All values are converted at constant price using GDP deflator of three major sectors (Agriculture, Industry, and Services). Standard errors in parentheses are clustered at the firm-level; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 2.5: Placebo Test for pre-treatment period

Dependent variable	Profit margin (1)	ROA (2)	Log(VA/labor) (3)	Log(TFP) (4)
Phase	-0.004	-0.005	0.015	0.018
	(0.014)	(0.005)	(0.034)	(0.034)
TreatIntensity*Phase	-0.003	-0.008	-0.129	-0.055
	(0.021)	(0.012)	(0.096)	(0.093)
Debt to equity ratio	-0.000	-0.000***		
	(0.000)	(0.000)		
Annual sales growth	-0.005	-0.000		
	(0.005)	(0.003)		
Log(Total assets)	-0.012	0.007	0.655***	
	(0.020)	(0.015)	(0.103)	
Log(Number of labor)	0.017	-0.002	-0.864***	
	(0.012)	(0.008)	(0.064)	
Log(Fixed investment)	-0.006			
	(0.004)			
Tangibility	-0.142	-0.068*		
	(0.105)	(0.035)		
HHI	0.020	-0.036	-0.461	-0.251
	(0.054)	(0.033)	(0.294)	(0.277)
Constant	0.198	-0.000	0.658	0.585***
	(0.213)	(0.166)	(1.201)	(0.160)
Observations	574	1484	1422	1422
Adjusted R-squared	0.022	0.014	0.226	0.014

Notes: Treatment intensity indicates that a continuous measure of state-owned shares of SOEs sold to private investor is measured from 0 to 1. This equals to 1 means that SOE is fully privatized, less than 1 and greater than 0 means that SOE is partially privatized, and 0 means that SOE has not been privatized yet. Phase is dummy variable indicates the period of 2004-2005. All models are applied Difference-in-Differences framework to the firm-level panel data controlled by regions-business sectors-years fixed effects. All values are converted at constant price using GDP deflator of three major sectors (Agriculture, Industry, and Services). Standard errors in parentheses are clustered at the firm-level; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 2.6: The impact of privatization on SOEs performance in Vietnam

Dependent variable	Profit margin (1)	ROA (2)	Log(VA/labor) (3)	Log(TFP) (4)
After	0.030*	0.008**	0.076*	0.107**
	(0.017)	(0.004)	(0.046)	(0.046)
TreatIntensity*After	0.058**	0.039***	0.342***	0.378***
	(0.023)	(0.008)	(0.088)	(0.089)
Debt to Equity	0.000	-0.000***		
	(0.000)	(0.000)		
Log(Net sales)	0.003	0.005**		
	(0.002)	(0.002)		
Log(Total Assets)	-0.017	-0.002	0.508***	
	(0.018)	(0.008)	(0.058)	
Log(labor)	-0.005	0.002	-0.773***	
	(0.007)	(0.004)	(0.052)	
Log(Fixed investment)	0.000			
	(0.002)			
Tangibility	-0.068**	-0.061***		
	(0.033)	(0.022)		
Lag1.Log(VA/labor)			-0.122***	
			(0.025)	
Lag1.Log(TFP)				-0.124***
				(0.029)
HHI	-0.019	0.009	0.345	0.345
	(0.045)	(0.023)	(0.274)	(0.280)
Constant	0.214	-0.003	2.126***	1.132***
	(0.167)	(0.063)	(0.626)	(0.117)
Observations	1294	3734	2690	2690
adj. R-sq	0.051	0.053	0.261	0.067

Notes: Treatment intensity indicates that a continuous measure of state-owned shares of SOEs sold to private investor is measured from 0 to 1. This equals to 1 means that SOE is fully privatized, less than 1 and greater than 0 means that SOE is partially privatized, and 0 means that SOE has not been privatized yet. After is dummy variable indicates the post privatization period 2006-2008. All models are applied Difference-in-Differences framework to the firm-level panel data controlled by regions-business sectors-years fixed effects. All values are converted at constant price using GDP deflator of three sectors (Agriculture, Industry, and Services). Standard errors in parentheses are clustered at the firm-level; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 2.7: The impact of privatization on processing and manufacturing SOEs performance in Vietnam

Dependent variable	Profit margin (1)	ROA (2)	Log(VA/labor) (3)	Log(TFP) (4)
After	0.021	0.025	0.152	0.186*
	(0.025)	(0.022)	(0.103)	(0.104)
TreatIntensity*After	0.064*	0.085***	0.230	0.261
	(0.037)	(0.032)	(0.172)	(0.176)
Debt to Equity	0.000	-0.000		
	(0.000)	(0.000)		
Log(Net sales)	0.005*	0.006*		
	(0.003)	(0.003)		
Log(Total Assets)	0.013	-0.004	0.620***	
	(0.027)	(0.024)	(0.151)	
Log(labor)	-0.037**	-0.008	-0.822***	
	(0.018)	(0.011)	(0.085)	
Log(Fixed investment)	0.002	0.000		
	(0.003)	(0.003)		
Tangibility	0.005	-0.090*		
	(0.067)	(0.052)		
Lag1.Log(VA/labor)			-0.168***	
			(0.043)	
Lag1.Log(TFP)				-0.191***
				(0.048)
HHI	0.114	-0.010	-0.041	-0.024
	(0.205)	(0.216)	(0.330)	(0.332)
Constant	0.042	0.101	1.370	0.992***
	(0.271)	(0.266)	(1.467)	(0.062)
Observations	491	491	767	767
adj. R-sq	0.103	0.145	0.244	0.089

Notes: Treatment intensity indicates that a continuous measure of state-owned shares of SOEs sold to private investor is measured from 0 to 1. This equals to 1 means that SOE is fully privatized, less than 1 and greater than 0 means that SOE is partially privatized, and 0 means that SOE has not been privatized yet. After is dummy variable indicates the post privatization period 2006-2008. All models are applied Difference-in-Differences framework to the firm-level panel data controlled by regions-years fixed effects. All values are converted at constant price using GDP deflator of three sectors (Agriculture, Industry, and Services). Standard errors in parentheses are clustered at the firm-level; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 2.8: The impact of privatization on retail and wholesale SOEs performance in Vietnam

Dependent variable	Profit margin (1)	ROA (2)	Log(VA/labor) (3)	Log(TFP) (4)
After	-0.029	0.000	0.054	0.010
	(0.028)	(0.006)	(0.080)	(0.077)
TreatIntensity*After	0.076**	0.040***	0.333**	0.443**
	(0.033)	(0.008)	(0.133)	(0.186)
Debt to Equity	0.000***	-0.000		
	(0.000)	(0.000)		
Log(Net sales)	0.019	0.009***		
	(0.014)	(0.004)		
Log(Total Assets)	0.014	-0.004	0.544***	
	(0.010)	(0.004)	(0.084)	
Log(labor)	-0.001	0.005*	-0.719***	
	(0.007)	(0.003)	(0.069)	
Tangibility	-0.073	-0.016		
	(0.045)	(0.015)		
Lag1.Log(TFP)				-0.140**
				(0.063)
HHI	-0.058	0.081	1.735*	0.686*
	(0.149)	(0.063)	(0.935)	(0.391)
Constant	-0.304	-0.073	0.852	0.723***
	(0.192)	(0.057)	(1.049)	(0.054)
Observations	913	913	879	655
adj. R-sq	0.022	0.113	0.407	0.087

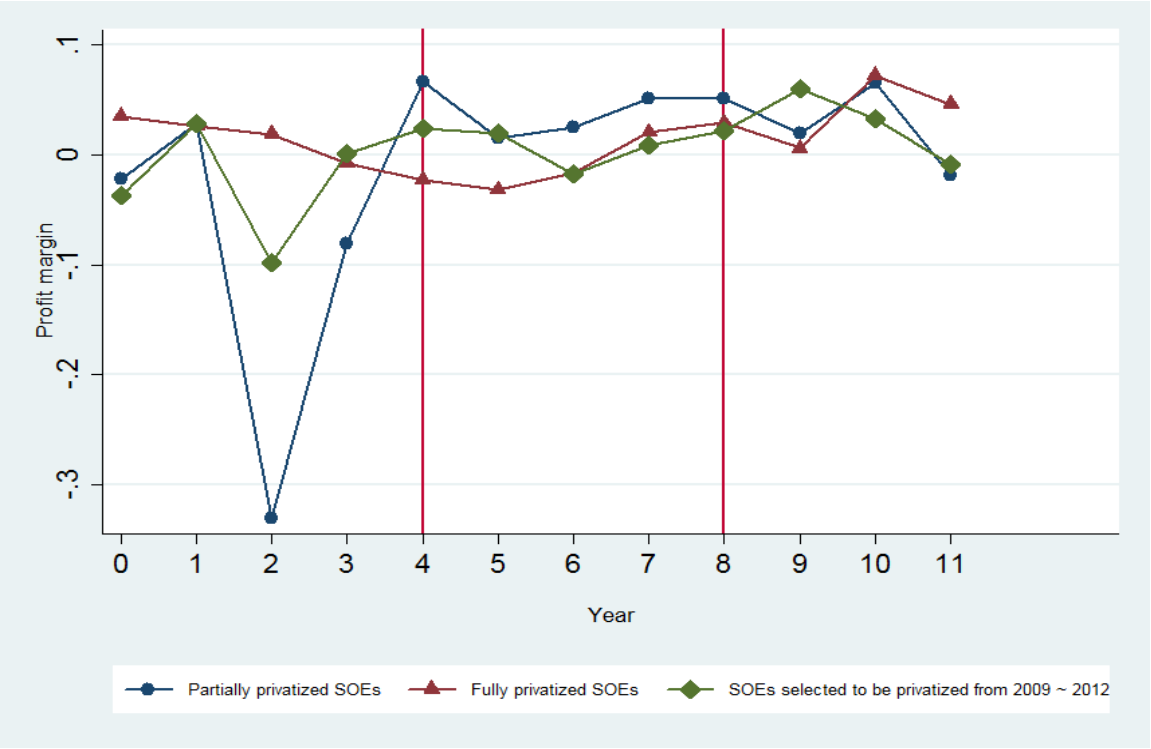
Notes: Treatment intensity indicates that a continuous measure of state-owned shares of SOEs sold to private investor is measured from 0 to 1. This equals to 1 means that SOE is fully privatized, less than 1 and greater than 0 means that SOE is partially privatized, and 0 means that SOE has not been privatized yet. After is dummy variable indicates the post privatization period 2006-2008. All models are applied Difference-in-Differences framework to the firm-level panel data controlled by regions-years fixed effects. All values are converted at constant price using GDP deflator of three sectors (Agriculture, Industry, and Services). Standard errors in parentheses are clustered at the firm-level; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 2.9: Robustness checks

Dependent variable	Profit margin	ROA	Log(VA/labor)	Log(TFP)
	(1)	(2)	(3)	(4)
Panel A: All business industries				
TreatIntensity*After	0.076	0.035***	0.493***	0.293***
	(0.105)	(0.011)	(0.095)	(0.086)
N	2309	2309	2178	2178
adj.R-sq	0.010	0.043	0.166	0.077
Panel B: Processing and manufacturing industry				
TreatIntensity*After	0.005	0.074***	0.465***	0.352**
	(0.050)	(0.028)	(0.177)	(0.174)
N	667	667	634	634
adj.R-sq	0.084	0.073	0.126	0.079
Panel C: Retail and wholesale industry				
TreatIntensity*After	0.106**	0.057***	0.454**	0.306*
	(0.050)	(0.011)	(0.195)	(0.166)
N	562	562	534	534
adj.R-sq	0.023	0.144	0.342	0.144

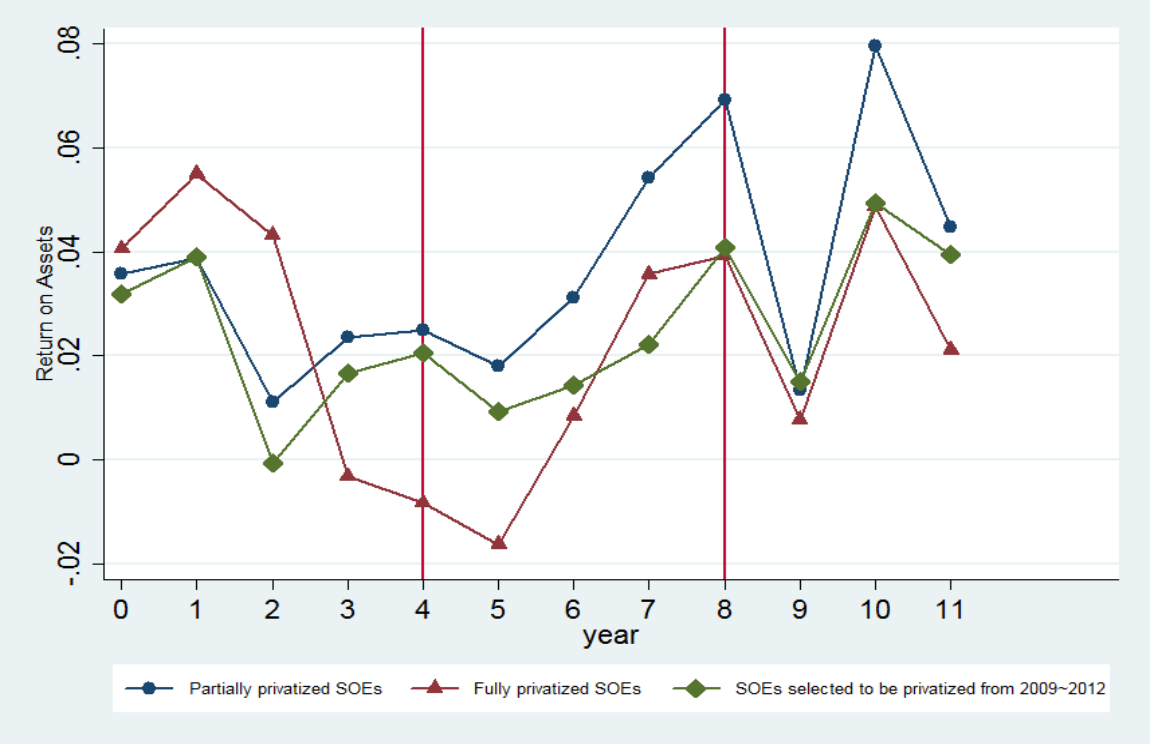
Notes: TreatIntensity indicates that a continuous measure of state-owned shares of SOEs sold to private investors is measured from 0 to 1. This equals to 1 means that SOE is fully privatized, less than 1 and greater than 0 means that SOE is partially privatized, and 0 means that SOE has not been privatized yet. After is dummy variable indicates the post privatization period of 2006-2008. All models are applied Difference-in-Differences framework to the firm-level panel data controlled by regions-business sectors-years fixed effects. Control variables are Fixed asset to total assets ratio, Debt to equity ratio, Log(Net sales), Log(Total assets), and the Herfindahl Index. All values are converted at constant price using GDP deflator of three major sectors (Agriculture, Industry, and Services). Standard errors in parentheses are clustered at the firm-level; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Figure 2.1: Trend comparison of average profit margin



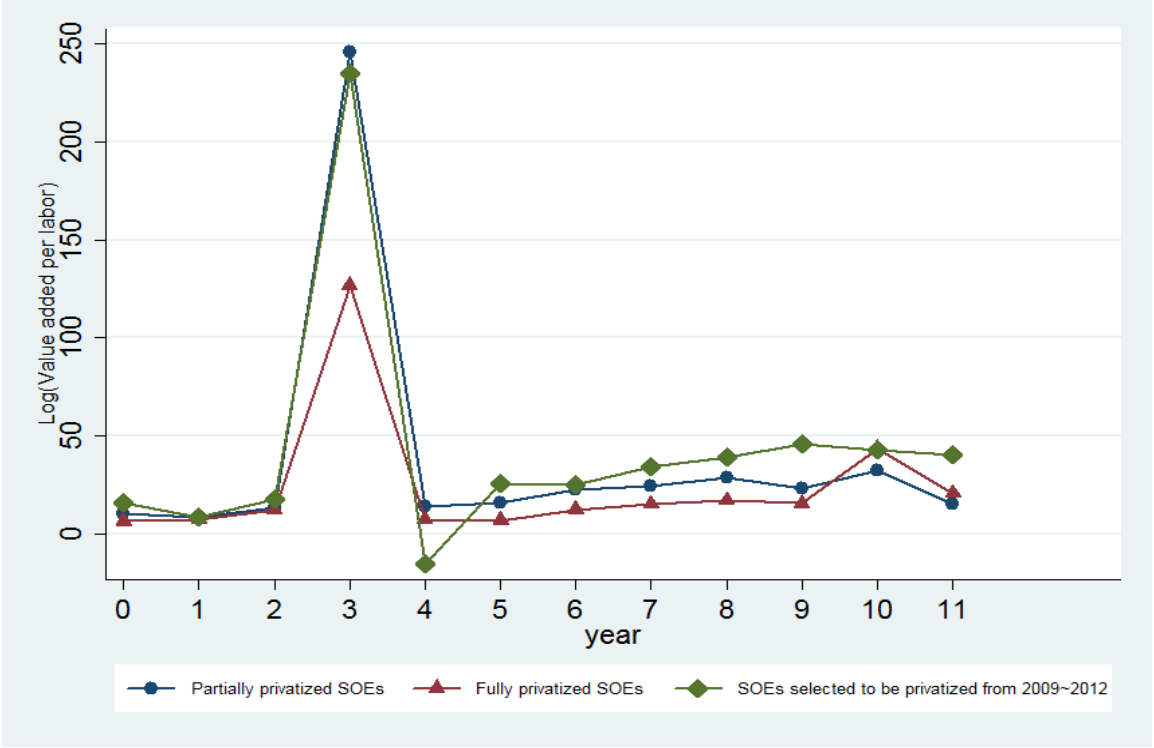
Source: Author

Figure 2.2: Trend comparison of average return on assets



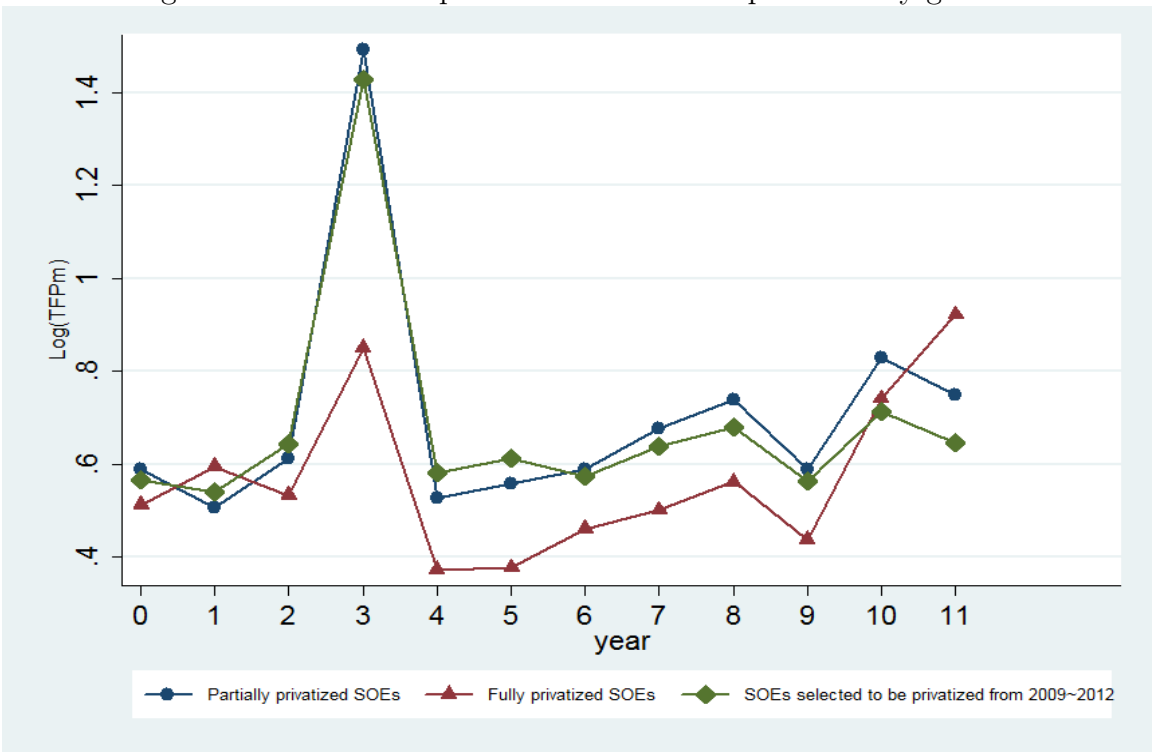
Source: Author

Figure 2.3: Trend comparision of labor productivity growth



Source: Author

Figure 2.4: Trend comparison of total factor productivity growth



Source: Author

Chapter 3

Privatization, Ownership Structure, and Privatized State-owned Enterprises Performance in Vietnam

Abstract

This chapter focuses on analyzing the link between ownership structure, corporate governance, and firm performance in the post-privatization period. Applying the method of two stage least squares (2SLS) to control the endogeneity of ownership, I attempt to evaluate the impact of different degree of ownership concentration on the post-privatization performance of Vietnamese listed firms which were completely privatized between 2003 to 2013. The estimated results show that fully-privatized SOEs with greater degree of ownership concentration have performed better in terms of profitability and efficiency than those with dispersed ownership structure in the post-privatization period of 2003-2015. I then examine four Vietnamese listed firms which have different forms of ownership structure after privatization to verify how their corporate governance and business operation have improved after changing its ownership structure. I find that privatization which leads to concentrated ownership structure has generated effective corporate governance, and consequently superior firm performance.

3.1 Introduction

The link between ownership structure and enterprise performance was early explored by Berle and Means in 1932. Later, many scholars have been focusing on examining impact of ownership structure on corporate governance which is considered as a necessary condition for improving enterprise performance. The link has raised an important question whether ownership concentration is appropriate structure for good corporate governance and performance. The answer of such question is important to policy implication of privatization. According to stylized facts of privatization, firms with concentrated ownership structure relatively have more efficient performance than those with dispersed one. The study of Berle and Means (1932) argues that dispersed ownership structure has negative impact on enterprise performance. Most of empirical studies such as Morck et al.(1988), Shleifer and Vishny(1986), Megginson et al.(1994) also confirm the view of Berle and Means, in which ownership concentration is associated with more effective and transparent corporate governance system.

The chapter aims to investigate two main hypotheses which are that ownership concentration has positive impact on post-privatization firm performance in Vietnam; and that privatized firms with concentrated ownership structure have restructured its corporate governance and business operation to achieve superior performance after privatization. To test the first hypothesis, I apply an instrument variable technique to Vietnamese listed firms which were fully privatized between 2003 and 2013. The estimated results show that the greater degree of ownership concentration, the better performance of enterprises after fully privatization. Regarding the second hypothesis, I examine four Vietnamese privatized SOEs which are randomly selected on stock market websites based on their ownership structures. In this step, I check whether the ownership structures have influenced their governance efficiency and financial performance. I also look at the improvement of their production process and business activities during and after their all state-owned shares are sold to private investors. I then try to compare performance of those firms during post-privatization period by analysing the link between their ownership structure and corporate governance. The comparative analysis suggests that SOEs should be privatized

to generate concentrated ownership structure. In this way, firms have higher probability of governance restructuring for better performance after privatization. The reason is that privatized firms having greater degree of ownership concentration have strong motivation to enhance its governance ability, to improve its production process, and to upgrade its business activities.

The chapter includes five main parts. Following introduction is a conceptual framework of the relationship between ownership structure, corporate governance, and enterprise performance. The third part shows the estimated results of the impact of ownership concentration on privatized firm performance by using the method of 2SLS. The next part presents a comparative analysis of four privatized SOEs by analysing the relationship between ownership structure, corporate governance, business operation, and performance before and after privatization programs. The last part is conclusion.

3.2 Conceptual framework

Privatization is expected to improve firm performance, consequently accelerating economic growth. In fact, transferring ownership from public to private sectors is not sufficient to improve SOEs performance after privatization. The success of privatization significantly depends on corporate governance improvement and institutional reforms, which is resulting from ownership structure in post-privatization period. Corporate governance, in which incentives for managers are better, effectiveness of ownership control is improvident, and control mechanisms for firm management are more effective; is an important determinant of performance improvement. Institutional reforms including improvement of legal frameworks, better enforcement of regulations, hardened budget constraints, and new industry entrants.

A conventional wisdom is that privatized firms can achieve better performance as a result of effective structure of corporate governance. However, privatization by itself does not generate efficiency benefits. It partly depends on which form of ownership structure is created after privatization. Therefore, this part presents a discussion of how ownership

Figure 3.1: Ownership structure, corporate governance, and firm performance

Source: Author

structure affect on corporate governance and firm performance as a conceptual analysis framework of the chapter (See Figure 3.1).

The Principal- Agent theory suggests the separation of ownership of owners (the principals) and control of managers (agents) for better firm performance result from effective governance improvement. In this view, ownership structure could be considered as an endogenous outcome which is able to adjust firm decision-making structure and environment. In other words, ownership structure is a factor determining corporate governance mechanism which have strong influence on economic performance of firms. However, we do not know whether ownership concentration or dispersion is more conducive to efficient corporate governance and better firm performance. According to the theory of corporate governance, good corporate governance is associated with ownership concentration in post-privatization period. This statement is also pointed out in almost all literatures (e.g. Shleifer and Vishny (1997)) on the link between ownership structure and corporate governance. The assumption is that ownership concentration can mitigate more risk of agency problems compared with dispersed ownership structure, and consequently lead to superior firm performance. Therefore, the question is why privatized firms with concentrated ownership structure could perform better than those with mass private owners and without major shareholders.

One rational explanation is that ownership concentration induces *higher probability of firm's restructuring* compared with dispersed ownership structure in the early stage of privatization program. Conceptually, the greater proportion of ownership, the higher

degree of firm's control rights. Large owners strongly push restructuring process on the basis of their satisfaction of corporate governance and firm performance after privatization. Obviously, they tend to optimally restructure the firm with the aim of raising their investment returns and benefits. Many studies, such as Barberis et al. (1996), Earle and Estrin (1996), Pohl et al. (1997), Earle (1999), Djankov and Claessens (1999), find that concentrated ownership structure with efficient corporate governance could lead to better full-privatized firm performance in transition economies. However, after partial privatization programs, if the state has remained a dominant or even a significant proportion of privatized firms' ownership, these firms are less likely to push for restructuring process and employment reduction (Claessen et al. (1997)). They could be also strongly influenced by political interests and driven by non-profit maximizing objectives; and consequently, could not improve its market valuation and performance.

Second, ownership concentration provides more incentives and benefits to create an *efficient corporate governance mechanism*. Without major shareholders, it is difficult for privatized firms to force major adjustment of managerial characteristics for better performance. Major owners normally have strong motivation and incentives to increase their monitoring and investments with the aim of maximizing their firm profit and efficiency. Many scholars believe that privatized firms could improve its performance by creating an effective corporate governance scheme, which is normally resulting from concentrated ownership structure (Shleifer and Vishny (1986), Morck et al. (1988), and Megginson et al. (1994)). Moreover, ownership concentration may alleviate agency problems for better corporate governance. Therefore, methods of privatization which lead to concentrated ownership structure might be rationally recommended for developing countries where are lack of necessary conditions for privatization to be successful.

Third, ownership concentration is usually associated with higher level of *transparent corporate structure*, and consequently provides more incentives to shareholders to increase their investments based on freely observing their cash flows. In other words, concentrated ownership structure could improve post-privatization firm performance by reducing the agency costs of managerial discretion. By contrast with ownership concentration, firms

with dispersed ownership structure are likely to face with a divergence between financial performance and corporate governance or between firm's ownership and control. Stiglitz (1999) argues that monitoring of management in firms having dispersed ownership structure is a public good and, in turn, is under-supplied. In fact, all small shareholders have a little managerial control as well as limited ownership rights to monitoring managers to pursue profit maximization. This problem may not be a serious issue if monitoring ownership rights are protected by an effective legislation, but this such protection is absent in most developing countries.

However, one problem is that ownership concentration is more likely to induce greater managerial initiatives, which may negatively affect firm performance. In other words, the greater degree of ownership concentration, the stronger managerial initiatives, and hence less improvement of firm performance. The studies of Aghion and Tirole (1997), and Burkart et al., (1997) document that large shareholders may impose tight control on managerial incentives and initiatives, which could induce a reduction in the owners' risk tolerance, especially under uncertain environmental uncertainty (Demsetz and Lehn (1985)).

In short, methods of privatization that lead to concentrated ownership structure significantly improve firm performance. As mentioned above, ownership concentration could induce higher probability of firm's restructuring, effective corporate governance system, and transparent corporate structure. In other words, ownership concentration is an effective way to ensure better post-privatization firm performance, especially in transition economies with weak legal protection of minority shareholder rights and undeveloped market institutions. A mumber of empirical evidences presented in the next section also assert that private ownership concentration has a significant positive impact on post-privatization firm performance.

3.3 Evidences from Vietnamese listed firms during post-privatization period

3.3.1 Background

The link between ownership structure and firm performance has received considerable attention in empirical literatures. The impact of ownership concentration on firm performance can be positive, negative, or ambiguous. Based on the theory of corporate governance, many scholars (Berle and Means (1932), Demsetz and Lehn (1985), Shleifer and Vishny (1997), Claessens and Djankov (1999b), etc.) believe that a privatized firm having concentrated ownership structure has more incentives to restructure its governance scheme for better performance. Other scholars such as Cremer (1995), Aghion and Tirole (1997), and La Porta et al. (1998a), argue that concentrated ownership structure may be harmful for firm performance. The reason behind their argument is that providing more powerful incentives to control firm's management may reduce managerial initiatives to acquire information. This may thus turn out to induce inefficient monitoring system. La Porta et al. (1998a) emphasize the risk of minority shareholders' expropriation is the main problem of corporate governance in most of countries rather than managers' monitoring. The problem may not be serious to countries which have effective legislations for protection of monitoring ownership rights. As the same point of view, Burkart et al. (1997) point out that dispersed ownership may positively affect firm performance when shareholders do not control and intervene excessively in its management system. Several theories and literatures (such as Demsetz (1983), Demsetz and Lehn (1985), Bevan et al., (1999), and Demsetz and Villalonga (2001)) show the ambiguity of ownership concentration impact on firm performance. In other words, there is non-significant relationship between ownership structure and enterprise performance. They claim that dispersed ownership structure is able to induce effective monitoring if analyst reports on firms are available and public. Grosfeld and Tressel (2001) find a U-shaped relationship between ownership concentration and firm performance in Poland. Firms with relatively dispersed ownership in which shareholders have less than 20 percent of voting shares and with rela-

tively ownership concentration in which shareholders have more than 50 percent of voting shares have higher productivity growth than firms with level of ownership concentration from 20 to 50 percent of total voting shares.

Most of empirical studies confirm that improvement in privatized SOE performance is associated with greater degree of ownership concentration. For example, using a cross-country sample for the period of 1980-2001, Boubakri et al. (2005a) find a significant and positive effect of ownership concentration on firm performance. Privatized firms with concentrated ownership structure, mainly through share issued privatizations, have improved its performance in developed and developing countries. The studies of Shleifer and Vishny (1997), and Marcincin and Wijnbergen (1995) document similar findings for transition countries. Their findings suggest that concentrated ownership is usually associated with more transparent scheme of corporate governance and related to higher probability of restructuring. The evidence from the largest European firms (McConnell and Servaes (1990)) also shows that profitability of firms and market-to-book value of equity are positively connected with ownership concentration. Additionally, other empirical studies such as Weiss and Nikitin (1998), Claessens and Djankov (1999b), Claessens et al. (1997), and Hanousek et al. (2007), on privatized firms in the Czech Republic state that the greater degree of ownership concentration, the higher profitability and labor productivity of firms in post-privatization period. They also suggest that firms privatized to strategic investors, especially foreign owners, tend to be associated with superior performance. Furthermore, there is a positive significant relationship between concentration and performance for privatized firms in Romania, Russia, Spain, Ukraine, and Egypt, which is found by Earle and Telegdy (2002), Barberis et al. (1996), De Miguel et al. (2004), Pivovarsky (2001), and Omran (2009), respectively. Pivovarsky (2001), for instance, indicates that Ukrainian SOEs could improve its labor productivity and total factor productivity by being privatized to foreign investors and banks.

A widespread belief is that improvement in enterprise performance is a result of effective governance scheme after privatization. The studies of Earle and Estrin (1996), Barberis et al. (1996), Pohl et al. (1997), and Djankov and Claessens (1999) confirm

that concentrated ownership significantly lead to higher probability of restructuring in post-privatization period. Basically, privatization is a process to transfer public ownership to private investors who have appropriate incentives to create an effective corporate governance scheme. Consequently, privatized firms have improved not only performance but also market valuation.

As discussed above, the relationship between ownership concentration and firm performance are controversial. The reason is that scholars use different data set and could not deal with the natural endogeneity of ownership structure due to limitation information of corporate governance. Most of empirical studies suggest a positive significant relationship between concentrated ownership structure and firm performance (such as Claessens and Djankov (1999), Pivovarsky (2001), Boubakri et al. (2005a), and Hanousek et al. (2007)). A very few previous studies do control the endogeneity of ownership concentration when they evaluate the effect of ownership structure on post-privatization firm performance. Notably, by applying the method of 2SLS for a sample of 52 newly privatized firms in Egypt over the period of 1995-2005, Omran (2009) concludes that post-privatization ownership concentration has a positive effect on firm performance. For instance, all accounting performance, measured by ROS, ROA, and ROE, is statistically significant correlated with concentrated ownership structure. He emphasizes that ownership concentration is influenced by timing and method of privatization, sales growth, firm size, and industry affiliation in pre-privatization period. The recently study of Laura and Silvia (2011) also applies 2SLS methodology with the aim of controlling endogeneity of ownership concentration. The study deals with a sample of 44 Spanish firms which were partially or fully privatized between 1985 and 2003. The estimated results prove that ownership concentration has significantly positive effect on firm efficiency after 3-year privatization. The authors suggest that the timing of privatization, firm size, solvency risk, industry sectors, and the ideology of the government should be considered in determining post-privatization ownership concentration.

In Vietnam, very scarce previous studies on the link between ownership structure and firm performance are conducted due to limited access to information of ownership struc-

ture and corporate governance. Do and Wu (2014) apply a multiple regression method for examining the impact of ownership structure on firm performance. They use a sample of 134 non-financial listed companies on the Hochiminh stock market over the period of 2009-2012 and find that firms with greater concentration of state ownership have had better financial performance (measured by return on assets and return on equity). The study of Phung and Mishra (2016) documents the same finding by using the panel data of Vietnamese listed firms during the 2007-2012 period. They argue that firms with greater degree of state ownership concentration appropriately benefit from political connections and government support rather than itself improvements in efficiency of corporate governance. However, these benefits will be reduced when the proportion of a firm's stock held by the state are less than 25 percent. In other words, the relation between state ownership and firm performance is U-shape. The study also presents foreign ownership has a convex relationship with firm performance.

There is no significant empirical study on impact of ownership concentration on Vietnamese firm performance by controlling the endogeneity of ownership structure in post-privatization period. Therefore, I attempt to contribute to the empirical literatures on the link between ownership structure and firm performance. The study investigates a main hypothesis that ownership concentration has a positive impact on post-privatization firm performance in Vietnam.

3.3.2 Variables, sample selection, and methodology

Measures of ownership concentration

The concept of ownership concentration is not clearly defined in both theoretical and empirical literatures. Ownership concentration could refer to significant amount of voting shares or owners' degree of control which provide large shareholders a relatively strong monitoring power over a firm's managerial decisions (Shleifer and Vishny, 1997). In other words, a shareholder with the largest amount of voting shares has the highest degree of firm's control. According to Berle and Means (1932), an owner who holds at least 20 percent of firm's shares has a management controlling role. Most corporate governance

scholars define the cut-off level could range from 5 to 20 percent, even from 4 percent up to 80 percent. However, using a threshold could not distinguish the different degree of firm's control among owners who hold voting shares above or below around the cut-off levels. Therefore, ownership concentration can be measured by simple calculation based on the values of major shareholders or by advance computation based on game theory.

The simplest measure found in most of empirical studies is *the largest owner's voting shares* (e.g. Thomsen and Pedersen (2000), Laura and Silvia (2011)). This measure allows to use in different specifications, for instance squared terms used by De Miguel et al. (2004), if the relation between firm performance and ownership concentration is non-linear. The potential disadvantage of the measure is that it might not be a reasonable proxy because the power of the largest shareholder's control is also associated with voting share weights of other major shareholders. In case other shareholders holding voting shares which is quite closed to the largest owner's voting shares, he might not be the person who has the greatest power in the firm. For example, the control degree of an owner holding 51 percent of total voting shares is not much different with the one holding 49 percent in a corresponding firm. It seems to be difficult to define how the gap of holding shares among shareholders is big enough for the largest shareholder can win any voting contest. Another simple measure is done in several literatures is *cumulative voting shares of the largest shareholders* (Demsetz and Villalonga (2001), De Miguel Et al. (2004), and Omran (2009)). Using the cumulative measure might still be problematic because of the potential disagreement among the largest shareholders.

Instead of using a continuous variable, some corporate governance scholars use *the ratio of holding voting shares between shareholders* as a proxy for ownership concentration. For instance, Coony et al (2012) take the ratio of the first largest owner's voting shares to the second largest owner's voting shares and the ratio of the first largest owner's voting shares to sum of the second to fourth largest shareholders' voting shares. Measuring ownership concentration by this way might be erroneous because of discretion of choosing the number of largest shareholders to add in the denominators. Obviously, there is no particular principal for this choice.

The most appropriate measures of ownership concentration which consider the interplay among firm's owners are *the Herfindahl index and the Gini coefficient*. The methods of Herfindahl (1950) or Gini (1945) could include all shareholders of a firm in a single measure of ownership concentration. The Herfindahl index is calculated by the sum of the squared sums of all owners' voting shares. The potential advantage of the Herfindahl index is offering a feasible way to take into account the important property of all shareholders, even a smallest one. The Herfindahl index is commonly calculated only for the largest shareholders who have significant role of control over a firm's managerial decisions due to limitation of ownership data. Thus, several studies such as the studies of Cubbin and Leech (1983), Leech and Leahy (1991), Goergen and Renneboog (2001), and Omran (2009), apply the index as a proxy for ownership concentration. Concerning shareholder distribution, a few scholars such as Mavruk (2010) and Lindblom et al. (2011), calculate the Gini coefficient by using the total number of shareholders, the voting shares of each shareholder, and the mean of ownership distribution. Although using the Gini coefficient is quite relevant compared with other measures by capturing the ownership distribution, the coefficient is not commonly used in empirical literatures because of limited data. Additionally, Shapley and Shubik (1954) and Banzhaf (1965) suggest the methods that could be applied to compute advanced power indices of ownership based on game theory. Generally, it is impossible to calculate the Banzhaf index or the Shapley-Shubik index in practice because of limited capacity of computation.

Measuring ownership concentration are different across empirical literatures, which depends on research objectives and availability of data. In this study, I use the Herfindahl index of the three largest private shareholders who own at least 5 percent of total voting shares as a main measure of ownership concentration because of the limited data and its advantages as mentioned above. Additionally, the largest owner's voting shares and cumulative shares of the three largest shareholders are also applied for robustness checks.

Instruments for estimating ownership concentration

The relation between ownership structure and firm performance may be formulated because of the agency problem deriving from the separation of ownership and control. The situation is that ownership structure may affect firm performance and better firm performance would lead to higher ownership concentration at the same time. Shareholders or potential shareholders of successful firms tend to remain their control over these firms because of better returns on their investments. In other words, there is simultaneity between ownership structure and firm performance. Many empirical studies, such as the studies of Demsetz (1983), Himmelberg et al. (1999), Palia (2001), and Gugler and Weigand (2003), confirm that this simultaneity is the main source of the endogeneity of ownership structure to firms' value. Therefore, using the method of instrumental variable estimation is the best way to control the endogeneity of ownership structure. The following part discusses several instrumental variables for estimating ownership concentration.

According to the empirical model specification proposed by Pistor et al. (2003) and Klein et al. (2005), ownership concentration of firms can be generally determined by corporate governance index, investment opportunities, degree of industry regulation, and firm size. Regarding privatized firms, in the studies of Boubakri et al. (2005), Omran (2009), and Laura and Silvia (2011), they present six determinants of ownership concentration which are method of privatization, timing of privatization, government ideology, sectoral affiliation, firm size, and firm risk in pre-privatization period. It is a crucial task to choose which of these determinants could be a significant instrumental variable for ownership concentration with the aim of addressing its natural endogeneity. The instrument variables are not correlated with firm performance but have a significant influence on ownership concentration.

In fact, most of empirical studies state that firm size and sectoral affiliation could be correlated with both firm performance and ownership concentration. In addition, Demsetz and Lehn (1985) argue that firms operating in less risky environments tend to have a greater degree of ownership concentration because large shareholders reluctantly invest into riskier firms. In other words, riskier firms may be associated with lesser degree

of ownership concentration. However, firms with less risk tolerance, on the one hand, are able to attract investors to invest more in its, and on the other hand, could have an inverse relation with firm performance. Thus, firm risk in pre-privatization period may not be purely exogenous with firm performance. Futhermore, information of government ideologies are difficult to collect and not available in all empirical studies and in my study.

The study, therefore, use *privatization methods and timing* as instrument variables for ownership concentration. These both variables satisfy two fundamental conditions of a valid instrument, which are highly correlation with ownership concentration and no impact on firm performance. Generally, governments assign privatization methods and decide what percentage of state-owned shares will be sold to private investors. Most of empirical evidences such as Pivovarsky (2001), Boubakri et al. (2005a), and Omran (2009) confirm that lesser degree of ownership concentration should stem from SIPs compared to direct sales. In Vietnam, methods of privatization are determined exogenously with firm performance, which is a fundamental condition of the validity of instrument variable. According to the Decree No 187/2004/NĐ-CP and the revised versions (the Decree No 109/2007/NĐ-CP and the Decree No 59/2011/NĐ-CP) issued in 2004, 2007, and 2011, respectively, a Steering Committee which is established to formulate a privatization program decides the method of privatization based on the residual value of state ownership, business sectors, business plans, and the size of charter capital after privatization. For instance, SOEs are assigned to sell state-owned shares; and to issue and sell new shares at the same time if they have a plan to increase its charter capital after privatization. If firms have plans to open new business activities in the future, they might be privatized through direct sales to potential investors. Or if the residual value of SOEs' state ownership are more than VND 10 billion, IPOs on stock exchange markets is required to attract more private investors. In case of the total state-owned shares sold to private investors is less than VND 10 billion, SOEs are privatized through direct sales or public offerings. The method of privatization which is defined in my study is dummy variable, which takes 1 if a firm is fully privatized through being officially listed on the stock markets. In other words, the selection of privatization methods is not influenced by pre-privatization firm

performance on the basic of the regulations for privatization process in Vietnam.

Timing of privatization is another factor should be considerable in exogenously determining private ownership concentration in post-privatization period. Governments may be more reluctant to divest program and not willing to relinquish their control over SOEs in the early stage of privatization. They will be able to sell larger percentages of state-owned shares when there is less political uncertainty and more investor confidence. Accordingly, there will be lesser degree of ownership concentration in the first stage of privatization. In the study of Omran (2009), he uses the median privatization date of the sample as a time-cut to define early and late privatization. He argues whether governments are reluctant or willing to relinquish their control, and whether private investors are attracted aggressively at early stages of privatization. His results document that ownership structure of Egyptian firms are more concentrated in the later stages of privatization. However, the relation between ownership concentration and later privatization could be negative, which is presented in the studies of Grosfeld and Hashi (2007), and Boubakri et al. (2005a).

Sample selection

The main data are collected from the stock market where I can find continuous financial data and information of ownership structure for almost all listed firms. Furthermore, I can check information of corporate governance from listed-firm's annual reports. I select 40 listed-firms which were fully privatized or at least were not controlled by the state as a dominant shareholder (or significant shareholder) between 2003 and 2013. Then, the data have at least three years of post-privatization firm performance, which can reflect the true medium and long-term impacts of ownership changes.

Table 3.1: Summary statistics

Variable name	Unit	Obs	Mean	Std. Dev.	Min	Max
The Herfindahl Index of three largest private shareholders	Index	231	7.186	8.575	0	37
Percentage of shares held by the largest private shareholder	%	231	19.278	13.811	3.60	60.56
Cumulative percentage of shares held by the three largest private shareholders	%	231	32.206	19.338	4.10	81.71
Tobin Q	Index	231	1.076	0.581	0.338	6.917
ROA	Ratio	231	0.072	0.084	-0.344	0.609
ROE	Ratio	231	13.760	30.601	-364.425	127.876
Return per labor	Mil.VND	231	0.506	1.482	-2.531	18.345
Proportion of outside directors	Unit	230	0.367	0.265	0	1
Changing CEO	Dummy	230	0.404	0.492	0	1
Log(Total assets)	%	231	14.089	1.171	10.119	16.612
Firm year experiences	Year	231	25.264	11.519	4	52
Foreign	Dummy	231	0.190	0.394	0	1
Institute	Dummy	231	0.247	0.432	0	1
Individual	Dummy	231	0.563	0.497	0	1
Debt to Equity ratio	Ratio	231	156.963	199.545	0.693	1667.054
Standard deviation of ROA	Index	231	13.880	1.421	9.483	16.965
Log(Total sales)	%	231	0.049	0.043	0.001	0.184
Privatization timing	Dummy	231	0.333	0.472	0	1
Privatization method	Dummy	231	0.654	0.477	0	1

Note: The data values are converted at constant prices using the GDP deflator of three major industries including agriculture, industries, and services.

Research methodology

I apply an instrument variable regression to address the endogeneity of ownership structure. The two-stage least squares (2SLS) regression is as the following equations:

$$PER_{it} = \beta_0 + \beta_1 CONC_{it} + \beta_2 CHAIRCEO_{it} + \beta_3 OUTS_{it} + \beta_4 CHNGCEO_{it} + \sum_k^6 \delta_k X_{itk} + \sum_l^3 OWNER_{itl} + \varepsilon_t + u_{it}$$

$$CONC_{it} = \alpha_0 + \alpha 1 METHOD_{it} + \alpha_2 TIME_{it} + \varepsilon_t + u_{it}$$

Where PER_{it} is the performance for firm i at time t including return on assets (ROA), return on equity (ROE), return per labor (RPL), and the market value of firm (Tobin's

Table 3.2: Measurement of variables

Variable	**Variable name**	**Description**
PER	Firm performance	- $Tobin's Q = \frac{(Share's market price)(Outstanding shares)+(Book value of debt)}{Book value of total assets}$ - Return on Assets (ROA) - Return on Equity (ROE) - Return per labor
CONC	Ownership concentration	- The Herfindahl index of the three largest private shareholders - The percentage of shares held by the largest private shareholder - The cumulative percentage of shares held by the three largest private shareholders
CHAIRCEO		Dummy variable which takes 1 if CEO and chairman are not the same person of firm i in time t
OUTS		The proportion of outside directors
CHNGCEO		Dummy variable which takes 1 if firm i has new CEO in time t
METHOD	Method of Privatization	Dummy variable which takes 1 if firm i is fully privatized through being listed on the stock market (share issued privatization - SIPs)
TIME	Privatization timing	Dummy variable which is equal to 1 if firm I is privatized after the median privatization date of the sample
OWNER	Type of the largest private shareholder	- Individual investors - Foreign investors - Domestic institutional investors
X_{it}	Firm size Sales growth Financial leverage Firm experiences Risk	Log (Total assets) Log (Total sales) Debt to Equity ratio Year i minus firm established year Standard deviation of ROA

Q). Tobin's Q is measured by dividing the market value to replacement value of assets (Brainard and Tobin (1968), and Tobin (1969), Phung and Mishra (2016)). While ROA, ROE, RPL are considered as the past and current firm performance, Tobin's Q can capture the expectation of future firm performance (Omran, 2009). I use Tobin's Q as an appropriate measure of firm performance, especially for listed firms. $CONC_{it}$ stand for ownership concentration for firm i at time t: The Herfindahl index of the three largest private shareholders, the percentage of shares held by the largest private shareholder, and the cumulative percentage of shares held by three largest private shareholders. $METHOD_{it}$ is the method of privatization that equals to one if the firm i is fully privatized through being listed on the stock market (SIPs) at time t and zero otherwise. $TIME_{it}$ is the privatization timing which equals one if the firm i is privatized after the median privatization date of the sample. I include three measures of corporate governance: $CHAIRCEO_{it}$ is dummy variable which takes the value of one if the board chairman and the chief executive officer (CEO) of firm i are not the same person at time t, $OUTS_{it}$ is the proportion of outside directors for firm i at time t; $CHNGCEO_{it}$ stands for changing CEO, which equals to one if firm i change its CEO at time t. X_{it} are other control variables including firm size, financial leverage, and tolerance risk. $OWNER_{it}$ are dummy variables that are defined as types of the largest private shareholder including individual investors, foreign investors, and domestic institutional investors. ε_t are control year-fixed effects and u_{it} is the error term.

3.3.3 Empirical results

Determinants of post-privatization ownership concentration

The first-stage of 2SLS regression in Table 3.3.3 reveals that privatization method and timing play an important role for determining private ownership concentration. The estimated results show that privatization method and timing have highly significant effected on ownership concentration of Vietnamese privatized firms. For instance, the coefficients of privatization method is significantly negative related to concentrated ownership at the 1 percent level for both models, suggesting that lesser degree of ownership concentration

results from sales issued privatization (SIPs) compared to private sales. The finding is also confirmed by previous literatures such as Megginson et al. (2004) and Boubakri et al. (2005a) for international privatized firms, Omran (2009) for Egypt, and Laura and Silvia (2011) for Spain.

Table 3.3: The impact of ownership concentration on privatized SOEs performance (first-stage results of 2SLS estimation)

Ownership concentration	**Tobin Q**	**ROA**	**ROE**	**Return per labor**
1. The Herfindahl index of the three largest private shareholders				
Privatization timing	3.386***	3.145***	3.145***	2.620**
	(1.06)	(0.95)	(0.95)	(1.11)
Privatization method	-3.801***	-3.752***	-3.752***	-3.863***
	(1.09)	(1.12)	(1.12)	(1.10)
Observations	230	230	230	230
Adjusted R-squared	0.28	0.28	0.28	0.29
2. The percentage of shares held by the largest private shareholder				
Privatization timing	5.717***	5.601***	5.601***	4.448**
	(1.74)	(1.65)	(1.65)	(1.80)
Privatization method	-6.326***	-6.303***	-6.303***	-6.429***
	(1.66)	(1.70)	(1.70)	(1.69)
Observations	230	230	230	230
Adjusted R-squared	0.30	0.30	0.30	0.31
3. The cumulative percentage of shares held by the three largest private shareholders				
Privatization timing	12.077***	12.039***	12.039***	10.998***
	(2.30)	(2.34)	(2.34)	(2.38)
Privatization method	-6.094**	-6.086**	-6.086**	-6.181**
	(2.56)	(2.57)	(2.57)	(2.60)
Observations	230	230	230	230
Adjusted Rsquared	0.35	0.35	0.35	0.35

Note: Robust normalized beta coefficients in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

In addition, the coefficients of privatization timing is consistently positive and statistically significant at the 1 percent level for the three models. This indicates that ownership concentration are strongly determined by the timing of privatization. As the same argument of Bortolotti and Faccio (2006) and Omran (2009), the finding supports that the government is reluctant to sell state-owned shares to private investors. On the other hand, the government is not willing to relinquish its control on partially-privatized firms in the early stages of privatization program.

Ownership concentration and post-privatization firm performance

This section investigates to explore how ownership structure has affected post-privatization firm performance and whether ownership concentration is appropriate for better performance of privatized SOEs in Vietnam. With the aim of controlling the endogeneity of ownership concentration, I apply the method of instrument variable regression to examine the relation between ownership concentration and firm performance after privatization.

Table 3.4: The impact of ownership concentration on privatized SOEs performance (second-stage results of 2SLS estimation)

Ownership concentration	**Tobin Q**	**ROA**	**ROE**	**Return per labor**
The Herfindahl index of the three largest private shareholders	0.031**	0.006*	2.564**	0.149**
	(0.02)	(0.00)	(0.83)	(0.05)
The Kleibergen–Paap F-test	12.22	10.35	10.34	12.25
P-value Hansen J test	0.20	0.11	0.66	0.16
The percentage of shares held by the largest private shareholder	0.018*	0.003*	1.483**	0.089**
	(0.01)	(0.00)	(0.51)	(0.03)
The Kleibergen–Paap F-test	11.89	10.81	10.81	12.08
P-value Hansen J test	0.20	0.10	0.59	0.11
The cumulative percentage of shares held by the three largest private shareholders	0.003	0.001	0.666*	0.039**
	(0.01)	(0.00)	(0.37)	(0.02)
The Kleibergen–Paap F-test	15.12	14.62	14.62	13.59
P-value Hansen J test	0.07	0.01	0.05	0.02
Observations	230	230	230	230

Note: Instrument variables are method and timing of privatization. Controls include dummy of CEO and chairman, proportion of outside directors, changing CEO, log of total assets, firm experience, Debt to equity ratio, standard deviation of ROA, and types of the largest private shareholder. The Kleibergen–Paap F-test are weak identification tests of instrument relevance. The Hansen J test are tests for the overidentification with a null hypothesis: the endogenous regressor is orthogonal to the error term. Robust normalized beta coefficients in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

The estimated results of the Herfindahl index in Table 3.3.3 confirm that ownership concentration has statistically significant and positive impact on post-privatization firm performance in terms of TobinQ, ROA, ROE, and return per labor at least three years after the change in ownership structure from public to private. In other words, the

greater degree of ownership concentration, the better post-privatization performance of Vietnamese privatized firms. This finding is relatively consistent with the estimated results of other ownership concentration measures, for instance the percentage of shares held by the largest private shareholder and the cumulative percentage of shares held by the three largest shareholders. The finding is also consistent with the results of Claessens and Dajnkov (1999) for Czech firms, Boubakri et al. (2005a) for international privatized firms, Omran (2009) for newly privatized Egyptian firms, and Laura and Silvia (2011) for Spain privatization after controlling the endogeneity of ownership concentration.

Regarding corporate governance, the theory suggests that the position of chairman and CEO in joint stock company should be separately for an effective corporate governance. My results tend to support this theoretical argument, in which privatized firms have significantly improved its TobinQ in post-privatization period if CEO and chairman are not the same person. Surprisingly, the relation between proportion of outside directors and firm performance is ambiguous. The estimated results provide an evidence that listed firm performance is not statistically effected by outside directors as similar the finding of Hermalin and Weisbach (2003) for the US firms. One explanation is that outside directors might not effect on effective corporate governance of listed firms, in which their information is quite transparent. A second explanation is that board of directors would reduce agency and information cost as well as increase quality of decision-making by having more inside directors. With regard the change of CEO, although the coefficients of $CHNGCEO$ dummy are negative and significant (See Tables of Appendix), it is likely bias to conclude that top management replacement has negatively influenced on post-privatization performance of listed firms. There are two potential sources inducing this argument. First, the change of CEO may be correlated with others control variables. For instance, the greater degree of ownership concentration, the higher probability of changing CEO if the largest shareholders do not satisfy with CEO performance, reflected by the highly significant and positive coefficients of $CHNGCEO$ dummy in the first stage of IV regression. Second, there might be a causal relation between CEO changing and firm performance. Changing CEO is resulting from not only privatization with greater

ownership concentration but also their poor performance. In other words, firms are likely to change its CEO if its performance are quite poor. This is the fact for Vietnamese listed-firms. For instance, a firm with mass inside shareholders presented in the next section regularly changes its CEO because of his poor performance or might be due to expropriation of minority shareholders.

In summary, the study mainly focuses on examining the relation between ownership concentration and post-privatization firm performance after controlling the endogeneity of ownership structure. The empirical results document that privatized firms with greater degree of ownership concentration are associated with better performance in Vietnam. As mentioned earlier, the relation between ownership concentration and firm performance is controversial. The relation could be ambiguos or negative in some countries such as Poland (Grosfeld and Tressel, 2001), the United States (Demsetz and Villalonga, 2001), and Belgium (Hamadi and Heinen, 2015). Notably, Kun Wang and Greg Shailer (2015) show that ownership concentration has negatively affected on firm performance by applying a technique of meta-analyst to integrate the diverse findings from 42 empirical studies of listed firms in 18 emerging countries. In the case of Vietnam, I find that ownership concentration has significantly positive effects on privatized firm performance in post-privatization period. Therefore, privatizing SOEs with the aim of generating greater degree of ownership concentration is recommended for developing countries like Vietnam where is lack of protection of minority shareholder rights and insufficient legislations. The next section explores the reason why privatized SOEs with concentrated ownership structure have improved its performance in post-privatization period.

3.4 Case studies: A comparative analysis

This section aims to examine good corporate governance is associated with better performance of privatized firms, which is as a result of converting to concentrated ownership structure after privatization. In this sense, privatized firms with greater ownership concentration have higher probability of major restructuring for better corporate governance,

and consequently for superior its performance in post-privatization period.

Based on the change of ownership structure right after full privatization, I randomly select four privatized firms which are listed on the stock markets (see Table 3.5). I choose these listed firms because they are quite successful and have transparent information which are important for this comparative analysis. In fact, it is not easy to find privatized SOEs which are listed on stock markets, operate in the same business sector, and report sufficient information about its shareholders, governance schemes, and financial performance. Although the listed firms are not the same in characteristics, comparative observations on their performance during and after changing their ownership structure are quite clear and informative. I believe that each case study can represent each ownership structure and the message is expected to be consistent with the Principal-Agent theory, the economic theory of the firm, and the findings of previous empirical studies.

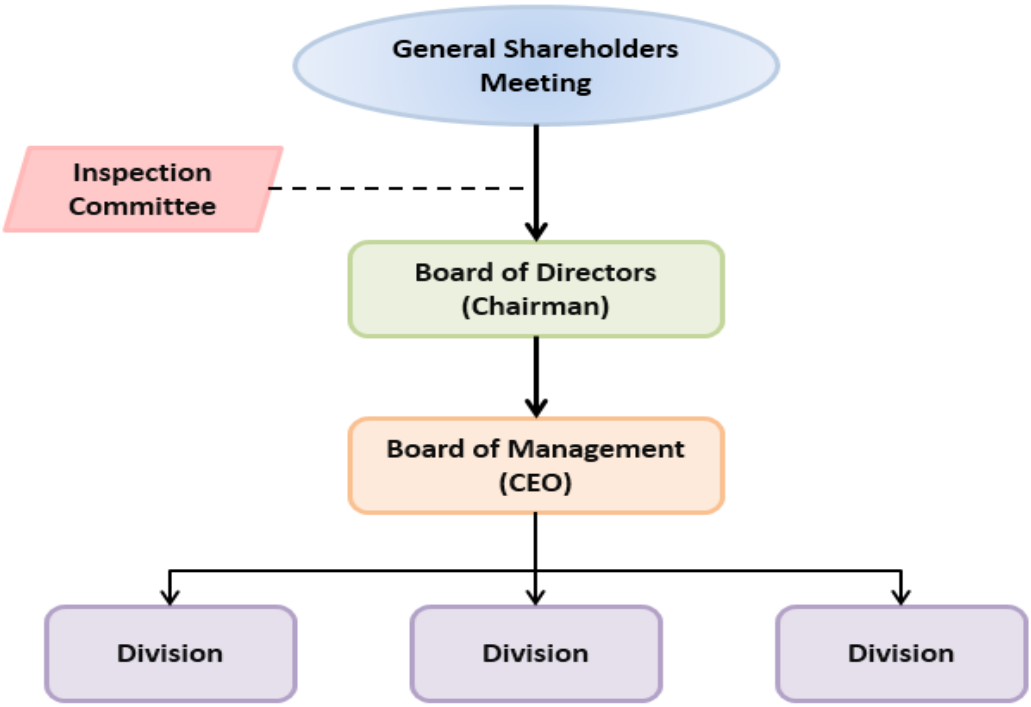
Table 3.5: Summary of four case studies

Privatization method	**Success case**	**Business sector**	**Year of privatization**	**Listed year**	**Year of comparison**	**Total assets (Million VND)**
One domestic dominant shareholder (Case A)	An Giang Fisheries Import Export JSC (AGF)	Food Manufacturing and Processing	2001	2002	2010	126,223
One foreign dominant shareholder (Case B)	Thanh Cong Textile Garment Investment Trading JSC (TCM)	Textile garment Products Manufacturing	2006	2007	2010	638,202
Mass outside shareholders (Case C)	Song Da Industry Trade JSC (STP)	Metal, non-metallic, mineral manufacturing	2003	2006	2010	38,704
Mass Inside shareholders (Case D)	Thai Binh Cement JSC (TBX)	Metal, non-metallic, mineral manufacturing	2001	2008	2008	31,566

Source: Author

In general, the four listed firms operate as the model of joint stock company under the

Figure 3.2: Corporate governance model of Joint Stock Company



Vietnamese Enterprises Law and other related laws (as Figure 3.2). General shareholders meeting is the highest decision-making body of a joint stock company. The meeting includes all shareholders who have voting rights. Board of Directors (BOD) is selected by voting at the general shareholders meeting. BOD is led by a chairman and in charge of executing all its rights on behalf of the company. Board of Management (BOM) is the body nominated by BOD. BOM takes responsibility for operating company business activities and implementing all its assigned rights and duties. BOD keeps in line with BOM to come up with appropriate policies and decisions based on decisions of general shareholder's meetings. Chief executive officer (CEO) is the highest leader of BOM and should not serve as a chairman of the BOD for governance effectiveness. Inspection Committee (IC) is in charge of supervising all business operation and management scheme of company on behalf of shareholders. IC closely coordinates with BOD and BOM in the spirit of cooperation to make sure that they are following the directions and plans of the company which are proposed at the meetings. Importantly, IC is required to operate independently with both BOD and BOM.

Although governance structures of privatized firms are the same, the effective gov-

ernance and efficient business operation are relatively different in association with their ownership structures. The following parts present in detail about the link among ownership structures, corporate governance, production improvement, new business activities, and financial performance of four case studies.

3.4.1 A case of one domestic dominant shareholder

Overview

An Giang Fisheries Import Export joint stock company (referred as AGIFISH) was privatized in Jun 2001 and listed one year right after the privatization process. The company has been known as one of the most successful companies operating in aquaculture products, especially products of Basa fish. Controlling quality of exported products is the process that the company conducts frequently. Its products are approved to export to EU market and US market, and also conferred the HALAL certificate to export to international Islamic communities. The company also received award certificates issued by Vietnamese government and Vietnam Association of Seafood Exporters and Producers (VASEP).

Although, it was privatized in 2001, the government still held a dominant ownership shares of the company from 2001 to 2007. In 2008, a private company, namely Hung Vuong joint stock company (Hung Vuong JSC), became its dominant shareholder. Hung Vuong JSC is known as one of the most successful private companies operating in the same business sectors of AGIFISH. Two years later, Hung Vuong JSC held more than 50 percent of AGF charter capital. Currently, the percent of its charter capital held by Hung Vuong JSC is about 80 percent as shown in Table 3.6.

Ownership structure, corporate governance, and firm performance

AGIFISH started to restructure its governance after two years of being dominated by a private company. Table 3.17 shows the governance structure of three main bodies of the company. Before the ownership structure was turned to be dominated by one domestic shareholder, the chairman has also served as the chief executive officer (CEO)

Table 3.6: Ownership structure of a privatized SOE with one domestic dominant shareholder

Year	**Shareholders structure**		**Fraction of Shares**
2005	Largest Shareholder	The state	20.00
	Other major shareholder	Wareham Group Limited	16.61
		PXP Vietnam Fun Limited	9.82
		Sacombank	5.45
		Sub-total	31.88
	Other shareholders	Foreign	14.04
		Domestic	34.08
		Sub-total	48.12
	Total		100.00
2008	Largest Shareholder	Hung Vuong JSC	21.60
	Other major shareholder	The state	8.19
		Vietnam Emerging Equity Fund Ltd	7.12
		PXP Vietnam Fun Limited	7.07
		Sub-total	22.38
	Other shareholders	Foreign	5.68
		Domestic	50.34
		Sub-total	56.02
	Total		100.00
2010	Largest Shareholder	Hung Vuong JSC	51.08
	Other major shareholder	The state	8.19
	Other shareholders	Foreign	4.31
		Domestic	36.42
		Sub-total	40.73
	Total		100.00
2015	Largest Shareholder	Hung Vuong JSC	79.58
	Other major shareholder	The state	8.24
	Other shareholders	Foreign	0.00
		Domestic	12.18
		Sub-total	12.18
	Total		100.00

Source: Author's synthesis

and nearly 80 percent of the BOD members were standing managers. In 2010, a new CEO was appointed as a result of changing ownership structure. The CEO and the chairman are not the same person until now. Moreover, the number of BOD members were also reduced from 11 to 5 in this year. The IC body had 2 out of 3 external members. This management structure has still been maintained. New divisions such as risk management division and legislation department for better managerial performance were established under the new governance scheme. However, it took almost two years to change the board of management after full privatization.

In terms of decision-making, AGIFISH has had long-term development strategies and annual operation plans since 2008 when it was controlled by a dominant domestic shareholder. Particularly, the company, in 2008, documented the long-term direction for five years with the aim of enhancing management capacity and human resources; investing to enlarge production scope and diversify products; promoting the company's trademark; expanding business linkages; and building an effective governance structure. The company was forced to consolidate its management body for achieving better its performance in the future.

As a consequence of restructuring management scheme, there are a number of new investment and upgrading activities in its production and business operation since 2010. For example, the company has invested in new equipment and technology for promoting value-added products, diversifying exported products, and upgrading production techniques and process. The company has operated new business areas and also joined with other companies to open two new affiliates. In 2015, the company increased its charter capital by nearly double from VND128 billion in 2010 up to VND281 billion. Additionally, the company has paid its attention to enhance the linkage with fish farmers in order to stabilize the quality and quantity of raw ingredients as well as to avoid imbalance between processing and breeding. The new board members have focused on promoting services and searching new potential markets, but not much invested in research and development activities.

The company has relatively achieved higher profitability and better financial leverage

after two years of its ownership structure becoming concentrated (see Table 3.19). For instance, as a result of enhancing governance efficiency and improving business operations, its annual sales growth slightly increases on average from 15.36 percent in the period of 2005-2009 to 17.86 percent in the period 2010-2014[1]. However, its profit margin, measured by the ratio of gross/net profits before income tax to total revenue, was not much different between the two periods. Its ROA and ROE ratios were less efficient in the later period. The company's financial leverages do not perform better than before restructuring governance scheme, except long-term debt ratio.

3.4.2 A case of one foreign dominant shareholder

Overview

Thanh Cong Textile Garment Investment Trading Joint Stock Company (refered as ThanhCong) is known as a successful case in textile and garment manufacturing sectors. ThanhCong was one of the affiliates of Vietnam Textile and Garment Group (Vinatex) and was selected to be privatized in July, 2006. After that, ThanhCong's share has officially listed on Hochiminh Stock Exchange (HOSE) since October, 2007. The company was completely privatized in 2013.

The government had gradually released its ownership shares of ThanhCong to private investors. In 2008, Vinatex was the largest shareholder holding 26.46 percent of ThanhCong's charter capital. One year later, E-land Asia Holdings Pte.,Ltd, as a strategic foreign investor, bought ThanhCong's shares and became as the largest shareholder of ThanhCong holding 37.67 percent of total its ownership shares. The percentage of state-owned shares reduced from 11.71 percent in 2009 to zero percent in 2013. Currently, E-land Asia Holdings is one of many famous companies in fashion and textile industry in Korea, which holds 43.23 percent of ThanhCong's shares.

[1]I do not use the 2015 value because the company has changed its fiscal year report in December to September since 2015

Table 3.7: Ownership structure of a privatized SOE with one foreign dominant shareholder

Year	**Shareholders structure**		**Fraction of Shares**
2008	Largest Shareholder	Vietnam Textitle and Garment Group	26.46
	Other major shareholder		
	Other shareholders	Foreign	7.68
		Domestic	65.86
		Sub-total	73.54
	Total		100.00
2009	Largest Shareholder	Eland Asia Holding Pte.ltd	37.67
	Other major shareholder	The state	11.71
	Other shareholders	Foreign	3.97
		Domestic	46.65
		Sub-total	50.62
	Total		100.00
2015	Largest Shareholder	Eland Asia Holding Pte.ltd	43.23
	Other major shareholder		
	Other shareholders	Foreign	5.76
		Domestic	51.01
		Sub-total	56.77
	Total		100.00

Source: Author's synthesis

Ownership structure, corporate governance, and firm performance

ThanhCong has improved its managerial performance right after the foreign investor, E-land Asia Holdings, bought nearly 40 percent of total its ownership shares in 2009. The largest shareholder's representatives have been assigned as members of the company's BOD and BOM. As showing in Table 3.17, the three main bodies, BOD, BOM, and IC were immediately changed when E-land Asia Holdings became as a dominant shareholder of the company. These bodies were relatively stable within 5 years after changing ownership structure.

As a common expectation, the company started to restructure its organization structure and management system in 2009. To simplify organization structure, the managers rearranged or transferred employees based on their management skills and strong ability. They have had more authority to be more proactive in handling their work and more responsibility. To improve the management system, the company has used the Balanced Scorecard (BSC)[2] to manage its mission and plans. They have also applied the Enterprise resource planning (ERP)[3] system to increase the financial statement transparency, to enhance the management efficiency, and to control the production process. Furthermore, the evaluation system and the reward policy were improved under the new management scheme.

The company designed a comprehensive growth strategy in mid-term and long-term after the year of transferring more than 37 percent of its ownership shares to the foreign institute. The strategy documents that the company, in the mid-term, will focus on its current core business line which is garment and weaving manufacturing. In the long-run, the company will entrant into fashion business which has higher value-added products. In order to realize its objectives and development plans, upgrading research and development capacity is a necessary condition to become a original design manufacturer. Furthermore, the company will run real estate projects when the market turns into

[2]BSC is a strategy performance management tool to identify and improve various internal functions of a business and their resulting external outcomes. It is used to measure and provide feedback to organizations.

[3]ERP is business process management software that allows an organization to use a system of integrated applications to manage the business and automate many back-up office functions related to technology, services, and human resources

a beneficial investment channel.

The company began connecting with domestic and foreign companies to develop its technologies and methods of production after its governance scheme was restructured in 2009. At the same time, the company has also invested in upgrading machineries and factories, doing new business lines, joining to set up new affiliates. Currently, the company has four subsidiaries and four affiliates. The company often searches for new export markets, renews product items, and develops research and development activities. The company also set up risk management division and R&D center.

As a result of ownership structure changing and corporate governance improvement, the financial performance has significantly improved. Table 3.19 shows that, on average, the profitability such as annual sales growth, net profit margin, ROA, and ROE increased approximately by 0.74 percentage points, 2.33 percentage points, 3.64 percentage points, and 6.89 percentage points, respectively. The level of operating efficiency has been relatively improved, especially long-term debt ratio turned into the rank from 0.3 to 0.5 for well-managed companies.

3.4.3 A case of mass outside shareholders

Overview

Song Da Industry Trade joint stock company (formerly Song Da Packaging Company), referred as SongDa, was a member of Vietnam Industry Construction Corporation (VNIC), one of the leading corporations in construction fields. The company officially operated as a joint stock company in April, 2003 and changed to the current name in 2007. The company's core-business is producing cement packages, PP woven fabric, and PP agricultural bag. With the new business registration certificate issued in 2007, the company started to diversify its business, including exploiting and processing minerals, investing in construction and infrastructure, importing machineries, and trading services.

The SongDa's share was officially listed on the stock market in 2006. However, the ownership of SongDa has been dispersed to outsiders four year later (see Table 3.8). This is a very important turning point for the company to create a flexible mechanism of

decision-making. At the end of 2015, one of general deputy director holds about 7.35 percent of SongDa's charter capital. Currently, the company is well-known not only in packing products but also in the field of construction and infrastructure.

Table 3.8: Ownership structure of a privatized SOE with mass outside shareholders

Year	**Shareholders structure**		**Fraction of Shares**
2006	Largest Shareholder	The state	27.25
	Other major shareholder		
	Other shareholders	Foreign	0.00
		Domestic	72.75
		Sub-total	72.75
	Total		100.00
2008	Largest Shareholder	The state	5.23
	Other major shareholder		
	Other shareholders	Foreign	3.17
		Domestic	91.60
		Sub-total	94.77
	Total		100.00
2010	Largest Shareholder	Pham Hong Duong (outsider)	5.32
	Other shareholders	Foreign	1.70
		Domestic	92.98
		Sub-total	94.68
	Treasury stocks		0.00
	Total		100.00
2015	Largest Shareholder	Nguyen Trong Loi	7.36
	Other major shareholder		
	Other shareholders	Foreign	2.90
		Domestic	76.40
		Sub-total	79.30
	Treasury stocks		13.34
	Total		100.00

Source: Author's synthesis

Ownership structure, corporate governance, and firm performance

The company started to gradually improve its organization structure and management scheme since the government relinquished its control over the company in 2010. New divisions for effective governance were slowly created. The CEO was immediately changed in this year. However, with mass outside shareholders, the chairman and the CEO were

changed several times within five years. This is one of big challenges for enhancing governance effectiveness, and consequently for implementing development plans of the company. Furthermore, an internal management legislation for business operation and governance has not conducted yet. A long-term strategy has not been documented yet since the year of full privatization. Long-term development objectives documented in its annual reports were not clearly specified.

Therefore, the production and business operation have not significantly improved, although the company has frequently controlled product quality and designed annual production plans. In addition, there is lack of investment in research and development activities. Investments in upgrading and improving production technologies and/or processes are not sufficient for the company to be success in a high-level market competition. Unlike the two previous cases, SongDa started to operate in new business lines several times without increasing its charter capital after being completely privatized, such as exploring and processing minerals, building civil infrastructure, and importing equipment and machineries. These new business operation have not been successful and currently one of its new subsidiaries has to be temporally closed due to nonprofitable performance.

By looking at its performance before and after turning into dispersed ownership structure, the company has relatively been less profitable. Notably, the annual growth rate and the return on equity, on average, decreased by 9.3 percentage points and 12.46 percentage points, respectively, from the period 2009-2015 to the period 2006-2008 (see Table 3.19). Regarding financial leverages, its liquidity and debt to equity ratio were relatively unchanged while the ratio of tangibility and liabilities to total assets were decreased.

3.4.4 A case of mass inside shareholders

Overview

ThaiBinh Cement joint stock company (refered as ThaiBinh), was established in 1979. It began to operate as a joint stock company in 2001. The company operates in the field of construction materials manufacturing, specifically cement. ThaiBinh is well known as the only one producer of White Portland Cement in Vietnam. The products are used not

only in civil construction but also in mastic manufacturing and painting. The company also trades clinker and white Portland cement with other countries.

ThaiBinh is one of many SOEs that were privatized by management-employee buyouts method, in which all its state-owned shares were sold to its insiders. After 2010, there are some individuals who bought ThaiBinh's shares and became as shareholders holding less than 10 percent of total its ownership shares (see Table 3.9). The company had no significant shareholders who have strong motivation to conduct restructuring process after full privatization. By the end of 2015, one domestic individual bought more than 23 percent of its total ownership shares and became as a dominant shareholder of the company. However, he were not as an executive member of the company during the comparison period of 2006-2015.

Ownership structure, corporate governance, and firm performance

The top management bodies have been unchanged after the company's state-owned shares were sold to its managers and employees (see Table 3.17). After six years of full privatization, the company first changed the CEO in 2014. However, the chairman has still served as the role of CEO, which is not recommendable for well-management. As a result, there was no investment in establishment of new divisions for improving effectiveness of management until 2015. They also designed mid- and long-term development strategies for the company. In fact, the strategies could not be realizable without active policy implications and governance effectiveness. It is not surprising that technologies and processes of production have not been upgraded or improved in the post-privatization period of 2009-2015. With unchanged its charter capital, there has been no investment in doing new business activities or setting new affiliates since 2008, even in doing research and development activities.

As similar performance of the privatized firm having mass outside shareholders, the company has performed less profitability after being fully privatized to its insiders. For instance, annual sales growth and ROE in the 2009-2015 post-privatization period were much worse off than those in the pre-privatization period of 2006-2008 (see Table 3.19).

Table 3.9: Ownership structure of a privatized SOE with mass inside shareholders

Year	**Shareholders structure**		**Fraction of Shares**
2008	Major shareholders		
	Insider shareholders	Board of Director	9.55
		Board of Suppervisor	2.27
		Employees	88.18
	Total		100.00
2010	Major shareholders	Nguyen Van Quan (outsider)	6.00
		Dinh Thu Trang (outsider)	5.34
		Sub-total	11.34
	Other shareholders	Foreign	0.00
		Domestic	88.66
		Sub-total	88.66
	Total		100.00
2014	Major shareholders	Nguyen Huu Ben	9.27
		Dinh Thu Trang (outsider)	5.34
		Sub-total	14.61
	Other shareholders	Foreign	0.00
		Domestic	85.39
		Sub-total	85.39
	Total		100.00
2015	Major shareholders	Vu Tien Nghia (outsider)	23.17
		Nguyen Minh Thanh (outsider)	5.63
		Sub-total	28.80
	Other shareholders	Foreign	0.00
		Domestic	71.20
		Sub-total	71.20
	Total		100.00

Source: Author's synthesis

Financial leverages were likely unchanged compared with those in the 2006-2008 period when the company's ownership was converted to dispersed structure. Thus, ineffective governance scheme resulting from dispersed ownership structure is considered as a main reason for less, even worse off, improvement of the company's performance after full-privatization.

3.4.5 Discussion

In short, Section 3.4 looks at the linkage of ownership structure, corporate governance, production and business operation, and financial performance of four Vietnamese privatized SOEs before and after its ownership structure transition. These four case studies confirm that privatized firms with greater degree of ownership concentration have performed more profitable and productive in post-privatization period than those having dispersed ownership structure. Generally, there are seven main characteristics observed from the above comparative analysis as shown in Table 3.10.

First, privatized SOEs with greater degree of private ownership concentration are immediately change its BOD and BOM right after full privatization compared with those having dispersed ownership structure. Furthermore, the BOD and BOM are not changed frequently and quite stable in medium-term while privatized firms owned by mass shareholders change its BOD and BOM frequently or relatively late in post-privatization period.

Second, the speed of governance improvement is quickly in privatized firms having concentrated ownership structure, but is slowly in privatized firms with ownership dispersion. Particularly, firms which have concentrated ownership strucure after completely privatization programs gradually set up new divisions and quickly updates internal regulations, evaluation system, and reward policies.

Third, fast decision-making is another advantage deriving from greater degree of ownership concentration. In other words, privatized SOEs are more likely to experience sluggish decision-making if its ownership structure is formed as dispersion after privatization.

Four, ownership concentration leads to better firm's production improvement in post-privatization period. Privatized firms with concentrated ownership structure frequently

Table 3.10: Summary of four privatized SOEs in post-privatization period

No	Observations	Ownership concentration	Ownership dispersion
1	Speed of changing BOD and BOM	Immediately and relatively stable within 5 years	Slowly with mass inside shareholders, but quickly and frequently with mass outside shareholders
2	Speed of enhancing governance effectiveness	Quick enhancement, for instance gradually setting up new divisions and quickly updating internal regulations, evaluation system, and reward policies	Slow enhancement, even no new division establishment for effective governance
3	Speed of decision-making	Fast decision-making	Sluggish decision-making
4	Production improvement	Quickly and frequently investment in equipment, machineries, technologies, and factories	Gradually improve production processes, upgrate technologies, and rarely invest in new technogolies and factories
5	Business activities	Opening new business lines and new affiliates which are successful	Almost no investment on doing new business lines and setting new affiliates
6	Long-term development strategy	The strategy is clear and realizable in line with its annual action plans	Relatively general and infeasible without action plans
7	Financial performance	Significant improvement in post-privatization period	Worse off than before full privatization

Source: Author

improve its production processes and gradually invest in new equipment, machineries, technologies, and factories.

Five, privatized firms with great degree of ownership concentration are associated with success of opening new business lines and affiliates.

Six, long-term development strategies of privatized SOEs with ownership concentration are quite clear and realizable in line with its annual action plans. By contrast, privatized SOEs with ownership dispersion normally formulate a general and infeasible strategy without specified action plans.

Seven, financial performance has significantly improved in post-privatization period as a result of effective corporate governance and production improvement which are partly generated by concentrated ownership structure. Therefore, privatization which leads to great degree of ownership concentration is recommended for archiving superior firm performance in Vietnam and developing countries.

3.5 Conclusion

The chapter investigates the relation between ownership structure and firm performance in the post-privatization period of 2003-2015 in Vietnam. Using the instrumental variables to control the endogeneity of ownership, the estimated results conclude that privatized SOEs with greater degree of ownership concentration have significantly improved its performance compared with those having mass private shareholders or without major shareholders. The four case studies show that privatized firms could quickly conduct internal restructuring process for better governance scheme if they were privatized in the form of concentrated ownership structure. The main reason is that privatized firms with dispersed ownership structure could not conduct its governance restructuring, production process, and business operation. Thus, privatization with the aim of generating greater degree of ownership concentration is recommended for developing countries in general and for Vietnam in particular. Additionally, privatization methods of MBO and MEBO which commonly do not generate firm's restructuring are also not recommended.

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Appendix 3

Table 3.11: The impact of ownership structure on fully-privatized SOE performance (Herfindahl index of the three largest private shareholders who own at least 5%)

Panel A: First stage of 2SLS

The Herfindahl index	**Tobin_Q**	**ROA**	**ROE**	**Return_labor**
Privatization timing	3.386***	3.145***	3.145***	2.620**
	(1.060)	(0.950)	(0.950)	(1.110)
Privatization method	-3.801***	-3.752***	-3.752***	-3.863***
	(1.090)	(1.120)	(1.120)	(1.100)
CEO and chairman are not	2.947***	2.934***	2.934***	3.148***
the same person	(0.890)	(0.890)	(0.890)	(0.920)
Proportion of outside directors	-1.350	-1.170	-1.170	-0.840
	(2.050)	(1.920)	(1.920)	(2.070)
Changing CEO	5.046***	4.842***	4.842***	4.711***
	(0.970)	(1.080)	(1.080)	(0.960)
Log(Total assets)	-0.27	-0.36	-0.36	-0.15
	(0.400)	(0.420)	(0.420)	(0.420)
Foreign	2.058*	2.275*	2.275*	1.32
	(1.140)	(1.170)	(1.170)	(1.260)
Institute	4.237***	4.228***	4.228***	3.937***
	(1.360)	(1.370)	(1.370)	(1.330)
Firm experience	0.198***	0.192***	0.192***	0.207***
	(0.040)	(0.040)	(0.040)	(0.040)
Debt to equity ratio		0.000	0.000	
		(0.010)	(0.010)	
Sdv (ROA)				-20.084*
				(11.250)
Constant	2.880	3.950	3.950	2.310
	(5.870)	(5.860)	(5.860)	(6.030)
Observations	230	230	230	230
Adjusted R-squared	0.28	0.28	0.28	0.29

Note: Robust normalized beta coefficients in parentheses. * p < 0.10, ** p < 0.05, *** p < 0.01.

Table 3.12: The impact of ownership structure on fully-privatized SOE performance (Herfindahl index of the three largest private shareholders who own at least 5%)

Panel B: Second stage of 2SLS

The Herfindahl index	**Tobin_Q**	**ROA**	**ROE**	**Return_labor**
Ownership Concentration	0.031**	0.006*	2.564**	0.149**
	(0.016)	(0.003)	(1.064)	(0.058)
CEO and chairman are not	0.249**	0.02	1.069	0.201
the same person	(0.105)	(0.018)	(5.135)	(0.280)
Proportion of outside directors	-0.075	-0.028	-8.178	0.121
	(0.148)	(0.025)	(7.843)	(0.369)
Changing CEO	-0.236*	-0.066***	-16.459***	-1.310***
	(0.126)	(0.020)	(5.477)	(0.413)
Log(Total assets)	0.104***	0.026***	8.585***	0.365***
	(0.032)	(0.007)	(2.592)	(0.130)
Foreign	-0.202*	-0.007	-15.498*	-0.016
	(0.119)	(0.023)	(8.361)	(0.277)
Institute	-0.353***	-0.032*	-17.964**	-0.684*
	(0.134)	(0.019)	(8.311)	(0.364)
Firm experience	-0.006	0.000	-0.215	-0.040***
	(0.005)	(0.001)	(0.221)	(0.015)
Debt to equity ratio		-0.000***	-0.081	
		0.000	(0.051)	
Sdv (ROA)				15.526**
				(5.985)
Constant	-0.338	-0.268***	-91.060***	-4.913**
	(0.418)	(0.090)	(29.934)	(1.942)
Observations	230	230	230	230
Adjusted R2	-0.086	-0.217	-0.112	-0.349
F statistic	12.216	10.35	10.34	12.25
(weak identification test)				
Hansen J statistic	1.615	2.529	0.197	1.938
P-value	0.204	0.112	0.657	0.164
(overidentification test of all instruments)				

Note: Robust normalized beta coefficients in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 3.13: The impact of ownership structure on fully-privatized SOE performance (the percentage of shares held by the largest private shareholder who owns at least 5%)

Panel A: First stage of 2SLS

The largest shareholder	**Tobin_Q**	**ROA**	**ROE**	**Return_labor**
Privatization timing	5.717***	5.601***	5.601***	4.448**
	(1.736)	(1.654)	(1.654)	(1.797)
Privatization method	-6.326***	-6.303***	-6.303***	-6.429***
	(1.662)	(1.703)	(1.703)	(1.688)
CEO and chairman are not the same person	4.278***	4.272***	4.272***	4.612***
	(1.542)	(1.545)	(1.545)	(1.553)
Proportion of outside directors	-4.259	-4.174	-4.174	-3.406
	(3.369)	(3.292)	(3.292)	(3.397)
Changing CEO	8.774***	8.675***	8.675***	8.218***
	(1.613)	(1.782)	(1.782)	(1.619)
Log(Total assets)	-0.369	-0.408	-0.408	-0.17
	(0.703)	(0.734)	(0.734)	(0.744)
Foreign	4.258**	4.363**	4.363**	3.042
	(2.117)	(2.168)	(2.168)	(2.259)
Institute	6.458***	6.454***	6.454***	5.961***
	(2.025)	(2.034)	(2.034)	(1.988)
Firm experience	0.353***	0.350***	0.350***	0.367***
	(0.071)	(0.067)	(0.067)	(0.073)
Debt to equity ratio		0.001	0.001	
		(0.008)	(0.008)	
Sdv (ROA)				-33.259*
				(19.249)
Constant	11.178	11.692	11.692	10.241
	(10.362)	(10.451)	(10.451)	(10.619)
Observations	230	230	230	230
Adjusted R-squared	0.3	0.297	0.297	0.305

Note: Robust normalized beta coefficients in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 3.14: The impact of ownership structure on fully-privatized SOE performance (the percentage of shares held by the largest private shareholder who owns at least 5%)

Panel B: Second stage of 2SLS

The largest shareholder	**Tobin_Q**	**ROA**	**ROE**	**Return_labor**
Ownership concentration	0.018*	0.003*	1.483**	0.089**
	(0.009)	(0.002)	(0.628)	(0.035)
CEO and chairman are not the same person	0.262**	0.023	2.212	0.258
	(0.108)	(0.017)	(5.116)	(0.295)
Proportion of outside directors	-0.039	-0.021	-5.119	0.297
	(0.154)	(0.027)	(7.877)	(0.401)
Changing CEO	-0.240*	-0.066***	-16.827***	-1.337***
	(0.129)	(0.021)	(5.692)	(0.432)
Log(Total assets)	0.102***	0.025***	8.307***	0.357***
	(0.032)	(0.007)	(2.592)	(0.132)
Foreign	-0.217*	-0.008	-16.202*	-0.088
	(0.124)	(0.023)	(8.742)	(0.302)
Institute	-0.340***	-0.029	-16.746**	-0.628*
	(0.131)	(0.018)	(7.986)	(0.356)
Firm experience	-0.007	0	-0.243	-0.042**
	(0.005)	(0.001)	(0.243)	(0.016)
Debt to equity ratio		-0.000***	-0.078	
		(0.000)	(0.051)	
Sdv (ROA)				15.526**
				(6.049)
Constant	-0.455	-0.286***	-98.827***	-5.485***
	(0.441)	(0.094)	(32.156)	(2.073)
Observations	230	230	230	230
Adjusted R2	-0.077	-0.187	-0.095	-0.334
F statistic (weak identification test)	11.89	10.81	10.81	12.08
Hansen J statistic	1.677	2.81	0.296	2.497
P-value (overidentification test of all instruments)	0.195	0.094	0.586	0.114

Note: Robust normalized beta coefficients in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 3.15: The impact of ownership structure on fully-privatized SOE performance (Cumulative percentage shares of the three largest private shareholders who own at least 5%)

Panel A: First stage of 2SLS

Cumulative percentage shares	**Tobin_Q**	**ROA**	**ROE**	**Return_labor**
Privatization timing	12.077***	12.039***	12.039***	10.998***
	(2.300)	(2.337)	(2.337)	(2.381)
Privatization method	-6.094**	-6.086**	-6.086**	-6.181**
	(2.563)	(2.570)	(2.570)	(2.599)
CEO and chairman are not the same person	2.267	2.265	2.265	2.551
	(2.282)	(2.292)	(2.292)	(2.341)
Proportion of outside directors	8.989**	9.016**	9.016**	9.714**
	(4.510)	(4.531)	(4.531)	(4.579)
Changing CEO	11.684***	11.652***	11.652***	11.211***
	(2.153)	(2.335)	(2.335)	(2.167)
Log(Total assets)	-0.987	-1.000	-1.000	-0.818
	(1.081)	(1.121)	(1.121)	(1.140)
Foreign	8.780***	8.814**	8.814**	7.746**
	(3.337)	(3.480)	(3.480)	(3.468)
Institute	11.020***	11.019***	11.019***	10.597***
	(2.866)	(2.873)	(2.873)	(2.827)
Firm experience	0.415***	0.414***	0.414***	0.427***
	(0.085)	(0.084)	(0.084)	(0.086)
Debt to equity ratio		0.000	0.000	
		(0.006)	(0.006)	
Sdv (ROA)				-28.286
				(29.829)
Constant	21.988	22.156	22.156	21.192
	(15.477)	(15.924)	(15.924)	(15.804)
Observations	230	230	230	230
Adjusted R-squared	0.351	0.348	0.348	0.351

Note: Robust normalized beta coefficients in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

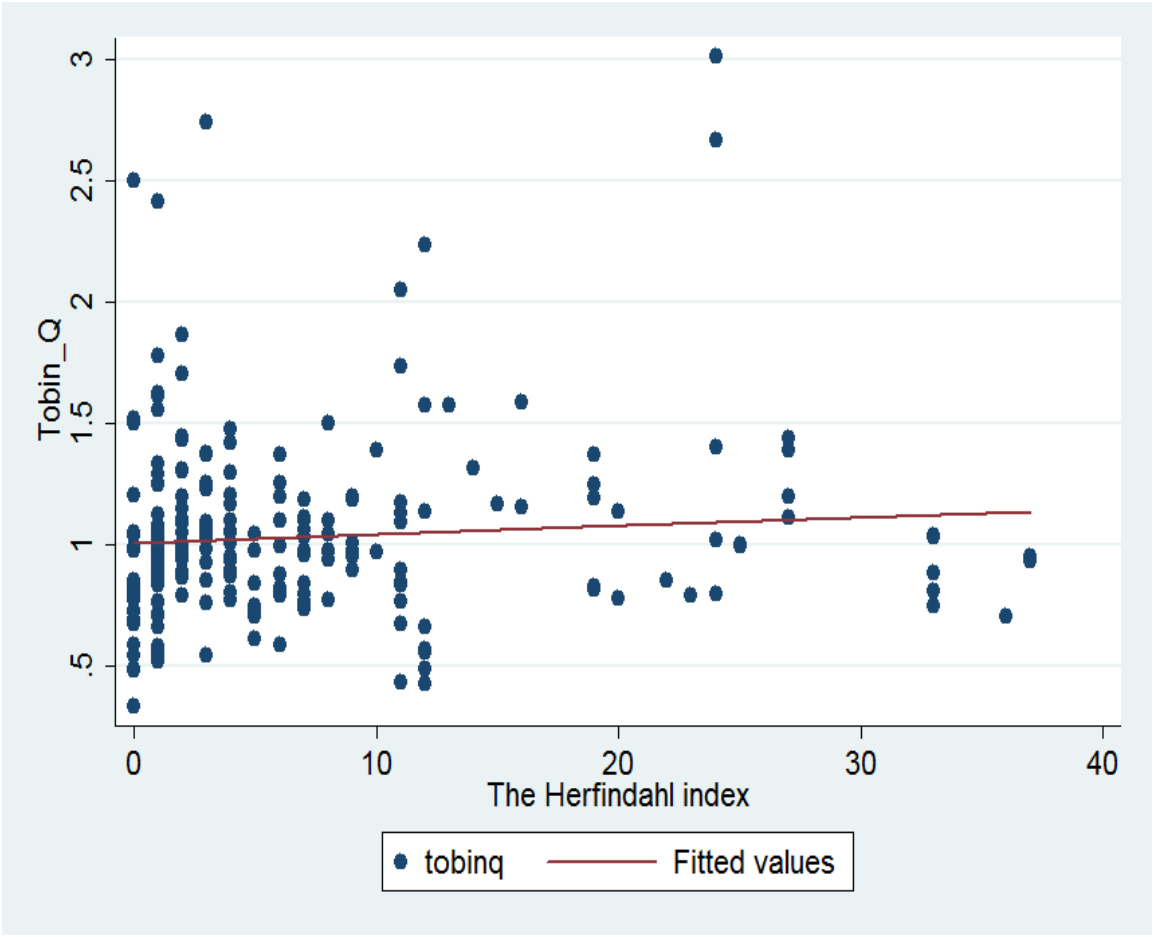
Table 3.16: The impact of ownership structure on fully-privatized SOE performance (Cumulative percentage shares of the three largest private shareholders who own at least 5%)

Panel B: Second stage of 2SLS

Cumulative percentage shares	**Tobin_Q**	**ROA**	**ROE**	**Return_labor**
Ownership concentration	0.003	0.001	0.666*	0.039**
	(0.005)	(0.001)	(0.367)	(0.016)
CEO and chairman are not the same person	0.332***	0.035**	6.666	0.534*
	(0.118)	(0.015)	(4.207)	(0.289)
Proportion of outside directors	-0.143	-0.042*	-17.986*	-0.455
	(0.148)	(0.025)	(10.449)	(0.332)
Changing CEO	-0.13	-0.047***	-11.524***	-1.017***
	(0.081)	(0.013)	(3.519)	(0.309)
Log(Total assets)	0.102***	0.025***	8.632***	0.385***
	(0.028)	(0.006)	(2.803)	(0.127)
Foreign	-0.199*	-0.005	-16.982*	-0.169
	(0.103)	(0.020)	(9.332)	(0.277)
Institute	-0.275***	-0.018	-15.390*	-0.556*
	(0.096)	(0.013)	(8.081)	(0.321)
Firm experience	-0.002	0.000	-0.014	-0.027**
	(0.003)	(0.001)	(0.167)	(0.011)
Debt to equity ratio		-0.000***	-0.078	
		0.000	(0.054)	
Sdv (ROA)				14.539**
				(5.836)
Constant	-0.394	-0.272***	-102.103***	-5.739***
	(0.368)	(0.088)	(34.895)	(1.997)
Observations	230	230	230	230
Adjusted R2	0.055	0.143	0.112	0.001
F statistic (weak identification test)	15.12	14.62	14.62	13.59
Hansen J statistic	3.232	6.37	3.734	5.669
P-value (overidentification test of all instruments)	0.072	0.011	0.053	0.017

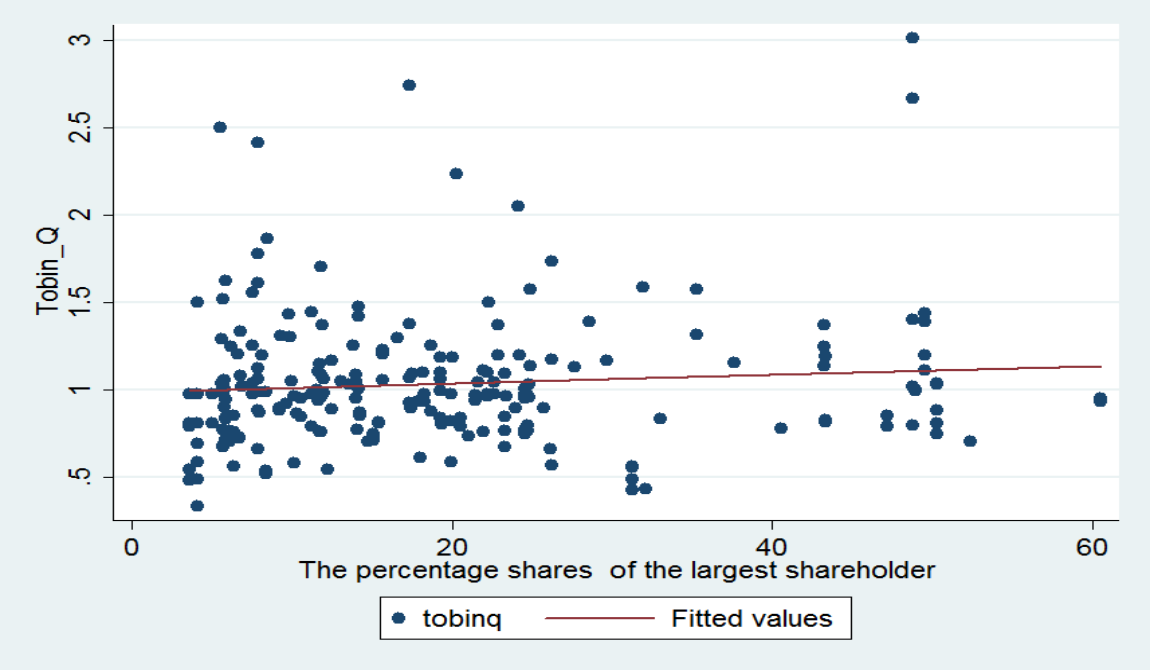
Note: Robust normalized beta coefficients in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Figure 3.3: The relation between Tobin's Q and The Herfindahl index of the three largest private shareholders



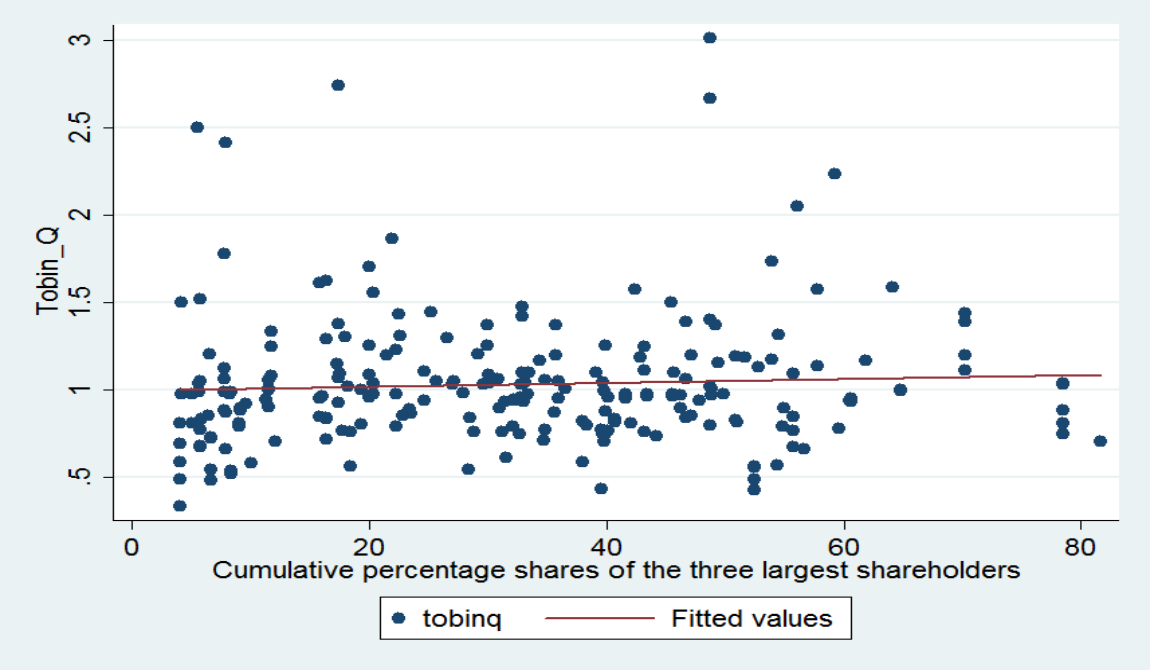
Source: Author

Figure 3.4: The relation between Tobin's Q and the percentage shares of the largest private shareholder



Source: Author

Figure 3.5: The relation between Tobin's Q and cumulative percentage shares of the three largest private shareholders



Source: Author

Table 3.17: The history corporate governance of four privatized SOEs

Case	Year	Board of Directors			Board of Management			Chairman is as CEO	Inspection committee		New divisions
		New chairman	Standing	Non-standing	New CEO	Standing	Non-standing		External	Internal	
AgiFish	2007	-	8	3	-	4	0	Yes	1	2	Yes
	2008	-	7	3	-	4	0	Yes	1	1	-
	2010	-	2	3	Yes	2	3	-	1	2	-
	2011	-	3	2	-	3	2	-	2	1	-
	2013	-	3	3	-	3	1	-	2	1	-
	2014	-	3	2	-	3	1	-	2	1	Yes
	2015	-	3	2	-	3	1	-	2	1	Yes
ThanhCong	2008	-	3	1	-	4	0	Yes	3	0	-
	2009	-	5	2	Yes	2	0	-	2	1	-
	2010	Yes	4	4	-	2	0	-	2	1	-
	2011	Yes	4	3	-	2	0	-	1	2	-
	2012	-	4	3	-	3	0	-	1	3	Yes
	2013	-	4	2	-	3	0	-	1	2	-
	2014	-	4	2	-	3	0	-	1	2	-
	2015	-	4	2	Yes	2	0	-	1	2	Yes
SongDa	2009	-			-			Yes	1	2	-
	2010	-	4	1	Yes	3	0	-	1	2	-
	2011	-	4	1	Yes	3	0	-	1	2	-
	2013	Yes	2	3	Yes	3	0	-	1	2	Yes
	2014	-	2	3	Yes	3	0	-	1	2	-
	2015	Yes	2	3	-	3	0	-	1	2	-
ThaiBinh	**2008**	-	4	1	-	3	0	Yes	0	3	-
	2010	-	4	1	-	3	0	Yes	0	3	-
	2012	-	4	1	-	3	0	Yes	0	3	-
	2014	-	4	1	Yes	3	0	Yes	0	3	-

Note: '-' means 'No'

Source: Author

Table 3.18: Production improvement and new business activities of four privatized SOEs

Case	Year	Production process changes			Business changes			Affiliates	
		Production techniques /processes	**Investment on machinery /Factory**	**Investment on R&D**	**Increasing chater capital**	**New business sectors**	**New export markets**	**New affiliates**	**Number of Affiliates**
AgiFish	2007	-	Yes	-	Yes	-	Yes	Yes	1
	2008	-	Yes	-	-	-	-	-	1
	2009	Yes	-	-	-	-	-	-	1
	2010	Yes	-	-	-	Yes	-	-	0
	2011	Yes	-	-	-	-	-	Yes	1
	2013	Yes	-	-	Yes	-	-	-	1
	2014	-	-	-	-	-	-	Yes	2
	2015	-	-	-	Yes	-	-	-	0
ThanhCong	2008	-	-	-		Yes			4
	2009	-	-	-	Yes	-	-	-	4
	2010		Yes	Yes	Yes		Yes	-	4
	2011	Yes	Yes	Yes	-	-	-	-	2
	2012	-	-	Yes	-	-	-	Yes	6
	2013	-	Yes	Yes	Yes	Yes	Yes	-	6
	2014	-	Yes	-	-	Yes	-	Yes	7
	2015	Yes	Yes	Yes	-	-	-	Yes	8
SongDa	**2010**	Yes	Yes	-	Yes	Yes	Yes	-	2
	2011	-	Yes	-	-	Yes	-	-	1
	2013	-	Yes	-	-	Yes	-	-	1
	2014	-	Yes	-	-	-	-	-	0
	2015	-	Yes	-	-	-	-	-	0
ThaiBinh	2008	-	-	-	-	-	-	-	0
	2010	-	-	-	-	-	-	-	0
	2012	-	-	-	-	-	-	-	0
	2014	-	-	-	-	-	-	-	0

Source: Author

Table 3.19: Performance comparison during and after transition of ownership structure

Average values	**Unit**	**Concentrated ownership**				**Dispersed ownership**			
		AgiFish		**ThanhCong**		**SongDa**		**ThaiBinh**	
		During (05 09)	After (10 14)	During (05 09)	After (10 15)	During (05 09)	After (10 15)	During (06 08)	After (09 15)
Profitability									
Annual sales growth	%	15.36	17.86	17.46	18.2	21.51	12.22	28.92	2.5
Gross profit margin	%	12.1	12.33	16.7	14.6	13.34	11.01	15.85	13.4
Net profit margin	%	2.59	2.38	3.47	5.8	6.93	5.55	7.41	4.41
Return on Assets (ROA)	%	6.35	3.34	2.83	6.47	11.2	6.45	10.59	8.31
Return on Equity (ROE)	%	12.67	8.28	10.77	17.66	19.93	7.47	27.03	17.6
Financial leverages									
Total debt to total assets	Ratio	0.46	0.6	0.72	0.64	0.38	0.14	0.55	0.59
Total debt to total equity	Ratio	0.96	1.5	2.78	1.81	1.47	0.16	1.27	1.53
Long-term debt to total equity	Ratio	0.05	0.02	0.77	0.48	0.23	0	0.25	0.13
Total assets to total equity (Equity multiplier)	Ratio	1.97	2.5	3.83	2.81	2.47	1.19	2.27	2.53
Fixed assets to total assets (Tangibility)	Ratio	0.37	0.25	0.52	0.36	0.23	0.2	0.47	0.45
Labor income growth	%	na	11.55	na	15.75	na	13.73	na	11.6

Source: Author

Chapter 4

Suggestions for Privatization Strategy in Vietnam

Abstract

This chapter aims to suggest some guidelines on privatization plan, privatization implementation strategy, and a new privatization driver in Vietnam. These guidelines are based on my empirical findings on different countries' privatization experiences including Vietnam. The first section presents some recommendation on what Vietnamese government should consider regarding their formulation of rational privatization plans, such as enforcing complete privatization programs, using methods of privatization which lead to concentrated ownership structure, and attracting potential private investors. Furthermore, the government should pursue an appropriate implementation strategy in order to effectively conduct privatization plans. For instance, a swift and comprehensive (Big-Bang) strategy of privatization should be applied for SOEs and partially-privatized SOEs which are operating in non-strategic sectors and have more or less than 50 percent of state-owned shares; evolutionary strategy is suggested for downsizing state ownership of SEGs and SGCs operating in non-natural monopoly sectors; and triggering strategy in line with creating more diversified private owners is recommended for privatization of SOEs operating in natural monopoly sectors. Creating a new privatization driver as presented

in the last section is the most important factors in order to implement privatization plans in more efficient ways.

4.1 Privatization plan

As documented in the previous three chapters, many countries including Vietnam have benefited from privatization programs since the governments' control over firms' operation has been relinquished. Notably, the findings of Chapter 2 confirm that the more state-owned shares sold to private investors, the better post-privatization performance of Vietnamese firms can be. In other words, fully-privatized SOEs with higher probability to be restructured after privatization have performed much efficiently than partially-privatized ones. Therefore, Vietnamese government should continue relinquishing its control over enterprises in non-strategic sectors. As documented in Chapter 1, privatization in Vietnam has recently experienced many limitations which could not be completely addressed without a comprehensive privatization strategy. The following directions should be seriously considered by the government when they formulate privatization plans.

First, *all SOEs which are operating in non-strategic sectors and partially-privatized SOEs should be completely privatized.* In fact, privatization of Vietnamese SOEs was not successful in terms of the percent of state-owned shares sold to private investors. In recent years, the government has still retained a significant ownership shares of partially-privatized SOEs to maintain its influence on these firms. For instance, according to the Vietnam Enterprise Census, about 30 percent of equitized SOEs had over 50 percent of state-owned shares in 2014. Although the privatization plan of 20 state economic groups and state general corporates (SGCs)[1] was approved in 2015, the government set to retain a dominant ownership in these enterprises. Obviously, these enterprises are less likely to be restructured which is necessary to improve corporate governance scheme; consequently, are less likely to achieve superior performance after partial privatization. Thus, relinquishing state-owned shares of enterprises which are operating in non-strategic

[1]SGCs are defined as large-sized SOEs established in strategically important sectors either under the Prime Minister or under other line ministries or provincial committees

sectors should be continued in a more efficient way and downsizing state ownership of SEGs and SGCs should be pushed.

Second, *privatization with concentrated ownership structure should be applied*. A concentrated ownership structure is recommended for privatized SOEs to push a major restructuring process, creating an efficient corporate governance scheme, and increasing transparent business operation after privatization. As documented in Chapter 3, privatized SOEs with greater ownership concentration have significantly improved its performance, comparing with those with diversified public owners and without major shareholders.

Third, *privatization with the aim of attracting potential private investors who have sufficient capital and prospective capacity for firm's restructuring should be seriously considered*. In fact, privatization in Vietnam have not attracted many prospective buyers because of lacking regulatory framework, less percentage of state-owned shares of a firm sold to private investors, poor corporate governance and performance, and less transparency of privatization process. As a result, there is less possibility for improving its governance and performance. In addition, some partially-privatized firms in which the state still holds a dominant ownership, even SOEs, are treated as potential investors for privatizing another SOE. This method does not lead to firm's restructuring after privatization. It simply transfers state ownership from one SOE to other partially-privatized firms which have still been controlled by the state. Thus, partially-privatized SOEs in which the state has still been as a dominant shareholder should not be considered as potential buyers for privatizing other firms. This may be allowed only when they have to serve public functions that do not attract private investors. Foreign investors and big domestic companies can be potential private investors, especially foreign investors who can offer more knowledge and technology transfers. The government is advised to attract more potential private investors to privatization programs, who can pursue their commitment on operating in the same core-business of firms and conduct firm's restructuring for better performance in post-privatization period.

Fourth, *privatization plans should set clear measures and deadlines which need to*

be enforced by a driver of privatization. Setting clear deadlines and measures is very important factors to push for privatization process swift and successful. In fact, the speed of privatization process in Vietnam has recently been quite slow because many privatization programs have already been delayed several times. It is necessary to set clear deadlines and appropriate measures for privatization to achieve comprehensive.

Fifth, *privatization plans should define a clear method of firms' assets and liabilities evaluation* to set precise selling price of state stakes (which is referred as face value). In fact, defining face value of state stakes is one of specific bottlenecks of privatization in Vietnam. In many cases of privatization, face values have been defined at much lower than market price, which induces less financial contribution to the state budget. Therefore, it is very important to conduct a clear method to set face value before implementation of privatization plans.

Sixth, *privatization plans should have wide public supports on the basis of full information disclosure.* Lack of full information disclosure is a major hindrance to the public or potential investors to involve in the privatization process. The government therefore is advised to promulgate a strong regulation (such as Act or Law) for widely publicizing privatization plans and outcomes.

4.2 Implementation strategy

As mentioned in Part 4 of Chapter 1, Vietnamese government started to implement privatization programs very carefully with fear that these programs can lead to radical political reform. Only 23 SOEs were privatized after 7-year implementation of privatization. With the success of the pilot program, the government has expanded the programs since 1999 with the aim of successfully transferring to market economy. There were 4.430 SOEs that had been privatized by the end of 2015. The government has applied a gradual strategy to privatize these firms. At the first step, the government has still held a significant percentage of ownership of privatized firms and later gradually sold its ownership to private investors. The percentage of state-owned shares sold to private sectors was different

across privatization programs and business sectors. In other words, SOEs were privatized gradually. It seems that the government continued to apply the gradual strategy to implement privatization plans. Although privatizing SOEs step by step could avoid some risks resulting from relinquishing state's control on them, the strategy recently has induced some limitations. For instance, the speed of privatization process has been quite low. Privatization programs have not attracted potential investors who are able to lead firm's restructuring process for improvements of post-privatization performance since the government set to retain a significant percentage of ownership shares of many large sized SOEs after privatization. Privatization has not significantly enhanced market competition which is one of important factors to boost economic growth. Basically, gradual implementation strategy depends on personal decision that is based on their analysis of privatization progress.

Therefore, this section aims to suggest how and when privatization plans should be conducted in an efficient way. By referring four types of implementation strategy documented by Park Jin (2010), I suggest three types of implementation strategy as showed in Table 4.1 for further efficient privatization in Vietnam. As my point of view, the types of implementation strategy in Vietnam depend on whether firms are SOEs or partial-privatized SOEs, and which industries of firms are operating.

As for SOEs and partial-privatized SOEs operating in non-strategic sectors with more or less than 50 percent of state-owned shares, swift and comprehensive (Big-Bang) privatization is a rational implementation strategy. This strategy requires integration of ministries and line ministries. By conducting privatization programs for these firms immediately and at the same time, an effective market competition will be created.

As for SEGs and SGCs operating in non-natural monopoly sectors, evolutionary strategy should be applied for the government to gradually relinquish its controls over these firms. In the first stage of privatization plans, they should privatize its member firms which operate in its non-core businesses, then privatize in its core functions. In case, its core functions are public functions which should remain as SOEs, privatizing function by function should be applied for their affiliations. At the same time, diversification in

non-core business sectors of SEGs and SGCs should be prohibited, unless these sectors serve public functions which do not attract private investors.

As for SOEs operating in natural monopoly sectors, privatization all at one time would lead to private monopoly power. Thus, triggering strategy in line with creating more diversify private owners is recommended to avoid the risk of a private monopoly. SOEs in the same natural monopoly sectors should be quickly and fully privatizes one by one. In other words, full-privatized SOEs and SOEs in the same natural monopoly sectors will operate simultaneously in the market at the first stage of privatization plan. As consequently, the privatized SOE has no chance to become a private monopoly. Furthermore, SOEs in the same natural monopoly sectors should be privatized to some potential private investors who have less probability to take-over other privatized SOEs and later become a monopoly.

Table 4.1: Recommended types of implementation strategy for SOEs privatization in Vietnam

	Comprehensive	Piece-meal
Quickly	**Big-Bang** strategy for partially-privatized SOEs and SOEs in non-strategic sectors	**Triggering** strategy for SOEs in natural monopoly sectors
Step by step	**Evolutionary** strategy for SEGs and SGCs in non-natural monopoly sectors	Gradual strategy

Source: Author's suggestions (referring four types of implementation strategy suggested by Park Jin (2010))

Additionally, to attract potential private investors, corporate governance improvement and information disclosure before privatization programs are the key to effective privatization. Concerning corporate governance improvement, the government should follow the OECD competitive neutrality guideline to ensure a level playing field for both public and private enterprises. The competitive neutrality guidelines are conducted by the OECD (2012) and designed how to streamline the operational form of government business, to identify the direct costs of any given function, to achieve a commercial rate of return, to account for public service obligations, and to obtain tax neutrality, regulatory neutrality,

debt neutrality and outright subsidies, public procurement. Good corporate governance of enterprises is an effective way to enhance their valuation and performance; consequently, to make them more attractive to potential private investors. It is an important pre-requisite for successful privatizing enterprises. As for attracting foreign investment, the government may consider to increase the percent of state-owned shares of a firm sold to a foreign investor to above 49 percent. Regarding information disclosure, the government is advised to promulgate a strong regulation (such as Act or Law) on privatization as a powerful tool to inspect and supervise the governance of SOEs. The Korean Act on the Managerial Structure Improvement and Privatization of Public Enterprises in 1997 and the revised version of the Act in 2008 are valuable examples to create a public disclosure system.

4.3 Establishing a privatization driver

Establishing a privatization driver is extremely important for implementing privatization strategy in the right way. The most important issue has been that privatization plans should be implemented by whom. By referring the guideline of Park (2010)[2] to establish a reform leading organization and looking at the current situation of privatization in Vietnam, a privatization driver must have the following features:

First, *the privatization driver should have more incentives to push for privatization process quickly.* The reason behind is that the more incentives resulting from privatization, the more efforts to push for privatization process quickly. Ministries and line ministries are obviously not willing to relinquish its controls over their firms which give them many benefits. On the other hand, the representatives of state ownership of SOEs, even of partial-privatized SOEs, do not want to lose their benefits from these firms, unless they have big benefits resulting from selling state-owned shares to the public. Thus, they may

[2]Park Jin (2010) suggests seven important features for establishing a reform driver which are: (1) It should be a permanent body; (2) The reform should be a core function of the reform driver; (3) The reform driver is directly under the President, the head of administration; (4) The reform driver should have a diverse composition of staff comprised of both career civil servants and non-government sector workers; (5) The reform-leading organization must have a flexible organizational structure; (6) The reform driver should have a wide spectrum of responsibility, but without specifically being assigned a task; (7) The reform driver should have a built-in consensus-building process.

delay the speed of privatization process, even disclose privatization information due to group interests.

Second, *the privatization driver should not induce any conflict of group interests among ministries and line ministries.* This is a crucial feature for privatization to be successful. In fact, enforcing privatization may cause many conflicts of interest within ministries and line ministries. They could not address all potential their conflicts of interest by themselves. As a result, they may conduct privatization in an inefficient way which contribute less to the state budget.

Third, *the privatization driver should be established as a temporary body within a permanent organization.* With the aim of quickly implementing privatization strategy, the privatization driver will exit after complete privatization programs. If the government creates a new privatization driver which is considered as permanent organization, its staffs are not willing to put their efforts on completing all privatization programs. They may delay the process to maintain their jobs and benefits. The privatization driver thus should be considered as a temporary body, which belongs to a permanent organization. After completing privatization process, the body's staffs will go back their previous jobs, and consequently have less incentives to delay the process.

Fourth, *the privatization driver should comprise government officers, governmental and non-governmental experts who have experience and knowledgeable on privatization.* Government contract-based officers must come from the home organization of the privatization driver. Qualified experts in privatization field work at governmental and non-governmental research institutes, and at independent consultant organizations. This type of diverse organization will enhance the capacity of privatization implementation in the right way.

Fifth, *the privatization driver should have a flexible organizational structure.* Privatization programs naturally are different across industries and characteristics of firms that need to be privatized. Based on specification of privatization programs, privatization teams will be created and work together in a short time to complete programs. Members of each privatization team have different recruitment requirements to conduct privatiza-

tion programs.

Sixth, *the privatization driver should control corruption of privatization implementation*. Corruption and group interests have been concerned as one of the big of problems of privatization process in developing countries where are lack of a comprehensive legislations and developed markets for privatization to be successful. Therefore, establishing a privatization driver should consider how to minimize corruption, especially to control group interests.

Table 4.2: Comparisons of potential privatization drivers for Vietnam

Criteria	**NSCERD**	**SCIC**	**New permanent entity**	**The body under Department of State Budget (MOF)**
More incentives/ motivations	No	Yes	Yes	Yes
Less conflict of interest	Yes	Yes	No	Partly Yes
Temporary body within a permanent organization	Yes	No	No	Yes
Diverse staffs	No	No	Yes	Yes
Flexible organizational structure	No	No	No	Yes
Minimizing corruption	No	No	Partly Yes	Yes

Source: Author's comparison

In Vietnam, ministries, line ministries, provincial governments, the State Capital Investment Corporation (SCIC), and the Debt and Assets Trading Corporation (DATC) are currently main drivers to implement privatization plans. As mentioned above, ministries, line ministries, and provincial governments can not be a good privatization driver. They should be assigned to take the role of business operation rather than business management and shareholder, which occurs in many countries such as South Korea. DATC under the Ministry of Finance (MOF) and SCIC under the Prime Minister were established in 2003 and in 2005, respectively, to enhance the privatization process of SOEs (see Part 4 of

Chapter 1). These two organizations should not be considered as rational privatization driver because of two main reasons. First, they themselves can also be classified as SOEs, especially SCIC as a state general corporation under the Prime Minister. Obviously, an SOE could not be a rational driver to privatize other SOEs in an efficient way. Second, complex ownership structures could be generated in case they take the role of privatization driver. The reason behind is that they have authorizes to buy state-owned shares of SOEs or partially-privatized SOEs which should fully transfer its state ownership to private sectors. As a result, SOEs are not actually privatized referring the concept of privatization in Vietnam. Furthermore, lack of full disclosure related to privatization could be another reason why the two organizations are not good as privatization drivers. Additionally, the National Steering Committee for Enterprise Reform and Development (NSCERD), under the Government Office, was established in 2011 with the aim of inspecting and supervising the implementation of SOEs reforms including privatization of SOEs. Members of the Committee board come from the central government, the communist party, ministries, line ministries, and the Vietnam General Confederation of Labor, which may lead to potential conflicts of interest if the Committee is designed as a privatization driver.

The government has currently requested the Ministry of Planning and Investment (MPI) to formulate a proposal for establishing a new entity as a representative of state ownership in enterprises. According to the draft proposal submitted by MPI in February, 2017, the proposal suggests to establish the Committee for managing and supervising state capital and assets in enterprises. The Committee, under the Prime Minister, is responsible not only for management and supervision of state capital and assets in enterprises but also for state capital investment and restructuring SOEs. The Committee should have a special operation scheme in order to enhance effectiveness of state capital management. In this sense, all SOEs, SEGs, and SGCs which belongs to ministries and line ministries will be managed and supervised by the Committee. It means that privatization programs will be partly taken by the Committee. In other word, the Committee will become as another privatization driver in Vietnam. By referring the above mentioned features, this type of entity is not recommended to be a driver of privatization process. The government

should clearly define the responsibilities of the Committee without implementation of privatization. The Committee should be assigned to manage and supervise state capital and assets in enterprises operating in business sectors which need to be operated by the state (such as sectors related national security) or which serve public functions (such as sectors do not attract private investors).

Indeed, a temporary body under the Department of State Budget, the Ministry of Finance, can be a rational privatization driver. The body satisfies almost all criteria as shown in Table 4.2. First, the body has much more incentives to push privatization process with the aim of balancing the state budget. Second, without recruiting staffs from other ministries and line ministries, the body is less likely to induce interest conflicts. The body can recruit staffs from other departments of MOF, such as Department of Public Asset Management and Department of Corporate Finance which are related to evaluate the value of firms for privatization. Third, the body staffs will go back to their original jobs right after complement of privatization programs. The fourth and fifth features are easily satisfied when the body establishment is in the right track. The body can minimizing corruption through disclosure information and recruiting experts or consultants who work independently of privatization programs. The government also should provide the body a strong power and capacity to take a responsibility of implementing privatization programs without representatives of ministries and line ministries, and to make all final decision.

In addition, the roles of SCIC and DATC should be reassigned after the establishment of privatization driver. These both organization will take a role as privatization supporters rather than privatization drivers. Particularly, SCIC, as a representative of the state shareholder, should take only responsibility for state capital investment in enterprises which serve public functions. Its privatization function should transfer to the new privatization driver. Furthermore, the role of SCIC should be considered to expend and strengthen management of state capital of SEGs and SGCs as suggested by Nam Il-Chong (2009)[3]; or could be reassigned in line with the establishment of the Committee

[3]Nam Il-Chong (2009), "On the governance of State owned economic groups in Vietnam", Supporting the Establishment of Vietnam's 2011-2020 Socio-economic Development Strategy, Korean Knowledge Sharing Program with Vietnam

for managing and supervising state capital and assets in enterprises suggested by MPI. DATC should not be assigned to conduct privatization programs. It should be considered as a supporter for the body to privatize firms which have less potential to be successful. DATC will corporate with privatization teams to address bad debts before implementation of privatization programs.